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Pledge of Honesty: *On my honour as a student of the Diplomatic Academy of Vienna, I submit this work in good faith and pledge that I have neither given nor received unauthorized assistance on it.*



Michael Duschaneck

Abstract

In the light of the Russian Federation's war of aggression against Ukraine, justified doubt has emerged regarding the effectiveness of the European Union's sanctions regime adopted against Russia for her destabilising actions in Ukraine. This thesis researches the economic and political consequences of those measures on Russia prior to the escalation of the Ukrainian Crisis in February 2022 to find strengths and weaknesses of those sanctions. By means of a thorough literature review, this eclectic work evaluates the impact of sanctions on Russia's economic development and investigates whether political change has occurred as a consequence of sanctions. Economically, it becomes evident that sanctions played only a subordinate role in the Russian economy's decline, with the falling oil price and the depreciating rouble exerting a much stronger influence. Nevertheless, sanctions succeeded in impeding Russia's access to international financial markets and in discouraging capital flows to Russia. Politically, sanctions were unsuccessful both in coercing Russia to change her foreign policy goals in Ukraine as well as in constraining her actions there. The realist point of view on international relations employed by Russia's political elite necessitates Russian-controlled spheres of influence to ensure the state's survival. Hence, the European Union's sanctions were unsuccessful in achieving the goal of a de-escalation in Ukraine and a full implementation of the Minsk Agreements.

Angesichts des Einmarsches russischer Truppen in der Ukraine sind berechtigte Zweifel an der Wirksamkeit der Sanktionsmaßnahmen der Europäischen Union gegen Russland wegen dessen destabilisierenden Handlungen in der Ukraine aufgekommen. In dieser Arbeit werden die wirtschaftlichen und politischen Auswirkungen dieser Maßnahmen auf Russland vor der Eskalation der Ukrainekrise im Februar 2022 untersucht, um Stärken und Schwächen der Sanktionen zu ermitteln. Basierend auf einer umfassenden Literaturrecherche werden die Auswirkungen der Sanktionen auf die wirtschaftliche Entwicklung Russlands bewertet und allfällige politische Veränderungen evaluiert. In wirtschaftlicher Hinsicht wird deutlich, dass die Sanktionen für den wirtschaftlichen Niedergang Russlands nur eine untergeordnete Rolle spielten, während der sinkende Ölpreis und die Abwertung des Rubels einen viel stärkeren Einfluss hatten. Die Maßnahmen sorgten dennoch für einen erschwerten Zugang Russlands zu internationalen Finanzmärkten und für niedrigere Investitionen in Russland. Politisch gesehen waren die Sanktionen weder darin erfolgreich, Russland zu einer Änderung seiner außenpolitischen Ziele in der Ukraine zu zwingen, noch um sein Handeln dort einzuschränken,

da die politische Elite Russlands der Theorie des Realismus‘ folgend russisch kontrollierte Einflussphären für zwingend notwendig hält. Die Sanktionen der Europäischen Union haben daher das Ziel einer Deeskalation in der Ukraine und der vollständigen Umsetzung der Minsker Abkommen verfehlt.

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1. The Ukrainian Crisis – a new chance for sanctions

When Russia, in violation of international law, annexed the Crimean Peninsula in 2014 following the Euromaidan protests, fighting ensued in the south-eastern part of Ukraine, most notably in the regions of Donetsk and Luhansk. The Western powers – foremost the European Union (EU) and the USA – blamed Russia for an escalation of the conflict, accusing her of supporting local separatists militarily, logistically, and financially. In consequence, they have employed a number of sanctions against Ukraine's largest neighbour, but have refrained from taking any military action themselves. With the Ukrainian Crisis recently being escalated into a full invasion of Russian forces on Ukrainian territory, resulting in an unprecedented diplomatic low point between Russia and the West since the end of the Cold War with no side seeming ready to make concessions, there is justified doubt regarding the utility of the sanctions regime employed. Hence, the goal of this thesis is to find an answer to the question:

What are the political and economic effects of the EU sanctions over the Ukrainian Crisis on Russia?

The relevance of this topic is manifold: practically, the very recent invasion of Russian troops in Ukraine is the first major armed conflict in Europe since the end of the Yugoslav Wars and the NATO air assault on former Yugoslavia and hence poses a major threat to peace and stability in Europe. Therefore, assessing the impact of the sanctions implemented before the escalation of the Ukrainian Crisis is an important topic to study in itself, as sanctions are meant as a peaceful alternative to military intervention. The European Union, despite Russia's credible military threat, has so far refrained from threatening military action against its eastern neighbour and instead announced hard and comprehensive sanctions due to the renewed attack on Ukraine's sovereignty. If its measures are to have a real chance of success, understanding the political and economic consequences of its past sanctions is crucial to help refine future actions and achieve the desired outcome of de-escalation.

Theoretically, the Russo-Ukrainian conflict presents a historically unique case study that should allow for valuable insights into the usefulness of sanctions. Throughout the second half of the 20th century and the beginning of the still-young 21st century, sanctions have become increasingly popular as a tool of foreign policy. However, their usefulness is perceived very controversially in academic debate, with many authors disregarding them as bringing about no or only dissatisfactory results. Robert Pape (1997) in his renowned critique concluded that throughout the history of their adoption from 1914 to 1990, sanctions could only achieve clear

measurable successes in five out of 115 cases. Three of the issues in which these measures had been employed were only of minor importance and in two of them the role played by sanctions is rather unclear. The present case of measures against Russia provides an excellent example to evaluate the practicality of sanctions in theory, because the matter at hand is certainly not trivial for either side. Moreover, it is the first time since the end of the Cold War that sanctions have been used in such a comprehensive way against a state with this kind of economic and military capabilities that is additionally so well integrated into the international community. Hence, this thesis wishes to contribute to the ongoing academic debate regarding the usefulness of sanctions as tools of foreign policy by qualitatively assessing their effects in what is arguably the most important case in the last thirty years. Should the results hint at a relevant negative development in Russia's economy or significant changes in Russia's foreign and/or domestic politics due to the EU's measures, the outlook for the success of sanctions might not be so grim after all and proponents might find new supporting arguments for their adoption. In the opposite case, however, adversaries are confirmed in their view that sanctions cannot achieve satisfactory results in international disputes where the topic of conflict is crucial for the opposing sides.

Economically, the main findings of this work are that sanctions did indeed exert economic pressure on the Russian economy by lowering trade between the EU and Russia and by restricting Russia's access to international financial markets. Certain types of oil production technologies are the main commodity directly targeted by the European restrictive measures and trade in those goods has hence been severely affected, although this type of trade represents only a small share of total trade between the two regions. The increased isolation of Russia's capital markets, however, posed a greater obstacle to the Russian economy, as Russian banks thereby faced difficulties to acquire foreign currencies and loans. This translated to increased interest rates for Russian businesses wishing to take out loans and consequently lower levels of investment and a slowdown of the economy. Still, other causes, mainly the plummeting oil price and the unfavourable exchange rate of the Russian rouble, were significantly more influential in the Russian economy's downturn than any sanctions employed.

Politically speaking, the sanctions' effects were almost insignificant. The EU's goal of a full implementation of the Minsk Agreements could not be achieved, and Russia did not halt her aggression towards Ukraine – quite to the contrary, she even launched a war of aggression against her neighbour. Moreover, Russia's political elite remained firmly in place and even managed to use the sanctions to portray Russia as an innocent victim of western arbitrariness. In addition, Russia implemented her own import restrictions against EU member states and

increasingly focused on domestic production and Sino-Russian relations to become progressively independent from the West.

At the time of writing this thesis, the effects of the new sanctions regime imposed in the wake of the attack of Russia on Ukraine in February 2022 cannot yet be observed, and discussions about the adoption of new sanctions are ongoing. Therefore, the present thesis will focus on the time and the sanctions implemented before the escalation of the crisis in 2022 and evaluate the consequences of the measures implemented prior to that time. Nevertheless, by understanding the extent of these effects (or lack thereof), one can draw conclusions about the new set of restrictive measures and whether their chances for success in deterring Russia from her aggressive behaviour are more promising.

Over the following pages, a more detailed introduction about the hypotheses posed and methodology employed in this thesis will be given.

2. Introduction

2.1 Theoretical framework and hypotheses

In this thesis, I will present three hypotheses and test their plausibility, as I expect that a close examination of their veracity will provide an answer to my research question.

H1a: The sanctions implemented by the European Union had a significant economic impact on Russia's economy.

H1b: The sanctions implemented by the European Union had only insignificant effects on Russia's politics.

This first hypothesis will build the core of my research. My reasoning behind the first part of this statement is the fact that Russia's GDP has contracted by over one trillion USD in the early phase of the sanctions (between 2013 and 2016) and has remained significantly below its pre-sanctions level ever since (World Bank 2022b). *Significant economic impact* in this context means a drop of more than 20% in GDP that has occurred over a three-year period, as such a steep decline is a clear sign of a receding economy (National Bureau of Economic Research 2008). With *economic development* as the dependent variable, I will crosscheck whether it was truly sanctions that caused this recession or whether other independent variables provide a more plausible explanation for Russia's economic decline. Those control variables will include a fall

in the price of crude oil – Russia’s most important export commodity (Eurostat 2022) – and changes in the exchange rate of the Russian currency. Although the development of the GDP will serve as my main indicator for *economic development*, I will also check for other benchmarks such as changes in the unemployment rate, Foreign Direct Investments (FDIs), foreign trade developments, and inflation rates. To showcase the economic effects of sanctions, a simplified trade model as introduced by Feenstra and Taylor (2012) will be used as appropriate to discuss their impact on price and welfare developments. In addition, the IS-LM model will be used to portray the effects of Russian banks’ limited access to international financial markets. Those theoretical debates will be verified by looking at the factual economic development based on secondary literature, which will enable me to validate whether sanctions or another independent variable brought about the Russian recession. A review of hypothesis 2 will furthermore grant more insights into how Russia averted economic damage of such magnitude that would have brought about major political change.

The second part of the first hypothesis is derived from the circumstance that the behaviour of Russia has not changed – what is more, her aggressive behaviour even turned into a real war of aggression against Ukraine. *Insignificant effects on Russia’s politics* in this context refers to the matter of fact that Russia has neither changed her stance towards Ukraine, as judged by the country’s unwillingness to give in to European demands, nor have there been any relevant changes in Russia’s domestic politics that would hint at possible foreign policy changes in the near future (for example, a regime change or widespread protests against the government). To check this second part of the statement, hypothesis 3 will be evaluated.

H2: Russia managed to circumvent European sanctions by focusing more on domestic substitution and other trading partners.

The second hypothesis is a logical consequence of the first one – if Russia experienced severe economic damage, but fares well enough to forego relevant political change, the country must have found ways to successfully circumvent the EU’s measures (or, should the damage not have been due to the sanctions, the relevant other cause for economic decline). President Putin has already advocated for increased self-sufficiency of the Russian economy since the early 2000s (Korhonen, Simola and Solanko 2018, 5) – this doctrine seems to have been realised. In addition, the Russian narrative of the necessity of closer cooperation with China (Teichmann and Falker 2020, 114-115) suggests that the state might have been successful in diverting trade to other countries. To evaluate this statement, trade flows, changes in domestic production as well as concrete foreign policy measures will be reviewed.

H3: The political elite of Russia follows a realist view of international relations and is hence unwilling to retreat from Ukraine, as it perceives a Russian-dominated neighbourhood as crucial for the state's survival.

The validation of this hypothesis will be done by evaluating analyses of various academic papers in order to check whether a realist view for Russia is plausible. Furthermore, a look into Russia's past will be necessary to derive whether or not it makes sense for the country to assume such a power-driven and rather negative view of international politics and cooperation. Of course, other political models, first and foremost liberalism and constructivism, will also be applied and compared with neorealism to allow for qualified judgements of which model holds the most suitable explanation for Russia's behaviour. Should this hypothesis stand up to scrutiny, then the prospects for sanctions' success are rather small, since a realist Russia will almost always prioritise geopolitical security in the form of spheres of influence over cooperation and healthy economic relations with the West, which would also explain why the EU sanctions have not achieved any political results as of yet.

2.2 Methodology

This thesis will to a large extent be based on scientific literature. Hence, an extensive literature review will be conducted to cover a wide range of academic literature that allows for a truly eclectic analysis of the topic. In the searching process, I distinguish between literature about sanctions and their effectiveness in general on the one side and the EU sanctions on Russia on the other side.

Since literature discussing the overall effects of sanctions is far too extensive to include all sources, I will focus on elementary and crucial sources that portray different aspects of sanctions, such as when sanctions have worked historically, why they have and have not worked, when they have been used and for what goals, and the development of sanction regimes and theoretical debates on improving their success rate. The key messages derived from this review will build the background against which the EU sanctions' effects will be judged throughout the later stages of the thesis.

In order to be able to determine those crucial sources, a systematic searching process will be applied consisting of different steps. In the beginning, the databases *JSTOR* and *ProQuest* will be used to gain an overview of relevant sources. Since the crisis over Ukraine only started in late 2013/beginning of 2014, results will be filtered to show solely literature from to the present

day. In addition, *ProQuest* provides the option to only search for peer-reviewed literature, which will be used to include only high-quality sources. Even though *JSTOR* provides no such filter, non-peer-reviewed literature is rare in this database and mainly exists in the form of primary sources, which consequently will be avoided in the search process for academic literature. The search keywords used will consist of “*EU OR European Union AND Russia* AND sanction* AND Ukrain**”, whereby for *ProQuest*, which includes a much wider range of literature, those terms must appear in the titles of the publications, while for *JSTOR* this condition will not be applied.

In the next step, the relevance of the results will be assessed by first reading their title and abstracts. Thereby irrelevant literature will be filtered out. Irrelevant in this context means publications that do not focus on other senders than the EU, other receivers than Russia or that do not focus on the sanctions over the Ukrainian-Russian Crisis.

Furthermore, the homepages of the European Union’s institutions will be searched to find relevant press statements and legal texts regarding the imposition of the EU sanctions.

Lastly, since the topic is of acute relevance, the traditional search engine Google will be used to find newspaper articles, working papers, and policy briefings about recent developments as well as reactions from the EU and Russia regarding the sanctions’ economic and political effects.

The literature will then be used to build the theoretical basis of my research. As such, it will be especially relevant in defining sanctions and their desired political and economic effects over the course of time. For the economic analysis, theoretical predictions about the sanctions’ effects will be made based on two models: the first one will be a simplified trade model that portrays the repercussions on demand, supply, and price levels of specific oil exploration technologies, the main commodity affected by sanctions. Secondly, the IS-LM model will be used to indicate the effects of isolating Russia’s financial institutions from international capital markets. Hereby, ramifications of the interest rate and total output levels shall be presented. Additionally, analyses conducted by different authors regarding the economic consequences for Russia will be debated and the varying results critically evaluated in order to find the most plausible causes for the downturn in Russia’s economy.

In the political part, literature will be critical to discuss different international relations theories and their applicability to the given case. This will be continued by a brief overview of Russia’s recent history to gain a better understanding of why the country’s leadership deems such aggressive behaviour towards Ukraine necessary. Next, the official objectives of the EU

sanctions regime will be examined, and assessments shall be made as to whether these objectives could be achieved. Moreover, Russia's reaction in the form of changed foreign relations priorities will be evaluated. Lastly, surveys conducted among Russian citizens will be assessed to find clues of possible dissatisfaction with the Russian leadership and consequent pressure for a regime change and a withdrawal from Ukraine.

Finally, in the last step, the interplay between economic damages to the Russian economy and political reactions from Russia will be debated to demonstrate whether the EU sanctions could achieve their goals or not.

2.3 Terminology

Since *economic effects* and *political effects* can have a variety of meanings depending on the context those terms are embedded in, I deem it necessary to provide explanations of what indicators this thesis will look into to determine their (non-)existence. Even more so, the relatively new concept of *sanctions* evolved over time to comprise different economic measures of varying scopes, rendering it unneglectable to provide unambiguous definitions for it.

2.3.1 Sanctions

Finding clear-cut definitions of which measures are comprised by the term *sanctions* and what their goals are is crucial for this thesis. Some authors in the academic debate appear to disregard this importance, which, however, can yield vastly different results in judging sanctions' utility – for instance, when economic measures are coupled with military action, this should have a greater impact on the target state, but the effects can then hardly be attributed to the economic measures alone.

Being one of the first authors to come up with such differentiations, Peter Wallensteen (1968, 248) distinguishes between *economic warfare*, *economic sanctions*, *specific economic actions*, and *tariff wars*. Economic warfare, while including strong economic measures such as total halts on trade, is foremost characterised by military action against the target state. A well-known historical example of economic warfare is Napoleon's *blocus continental*, in which the French emperor, in addition to military operations against the United Kingdom, meant to cut off his adversary from trading with continental Europe, which should have weakened it sufficiently to force it to sue for peace (Thomson 1966, 62). Tariff wars, according to Wallensteen, mean changes in import and export restrictions (most prominently tariffs) to affect other states. While

such measures certainly do not leave the economies of those nations engaging in tariff (or trade) wars unafflicted, this term forms no part of the definition of sanctions, as tariff wars do not necessarily include political goals, but are undertaken to score more favourable terms of trade. The very recent China-US trade war, for example, was not led by former US President Trump to bring about changes in China's politics or to send a message to the international community, but merely to "*improve conditions for American companies operating in China, reduce the trade deficit between the two nations and create a more level playing field for American companies competing with Chinese firms*" (Swanson 2019).

Wallenstein's economic sanctions and specific economic actions, in contrast, both form integral parts of the modern understanding of sanctions. Whereby economic sanctions comprise measures inhibiting the general trade between two nations, the author explains specific economic actions to be such measures that are of a smaller scale, but nevertheless negatively affect the economic relations between two states. Those acts can impede trade in only some sectors, for instance via an arms embargo, or influence the economic relationship between sender and receiver in other ways, such as by withholding economic aid or restricting access to the sender's financial market and institutions. These measures of less severity are mostly referred to as *smart sanctions* or *targeted sanctions*. Their emergence has gained popularity after the realisation that traditional economic sanctions are imposing high levels of undesired collateral damage on the target state's population. Hence, smart sanctions are directed only against the persons to be punished, which are often part of the political elite within their country and enjoy significant economic power. Asset freezes and travel restrictions are among the most-used measures against specific persons (Allen and Lektziang 2013, 121-122; Tostensen and Bull 2002, 373-39).

Whether economic measures affect the entire economy or only individual sectors/individuals: for them to qualify as sanctions, they must have a policy objective. James Barber (1979) differentiates them into three categories – primary, secondary, and tertiary objectives. The first category comprises the traditional goal of altering the target state's behaviour; the secondary goal lies within the domestic politics of the imposing state and consists of rent-seeking in the form of achieving political approval among voters for acting upon the undesired behaviour of the target state; and lastly, the tertiary objective can be found on the international system level, as sanctioning states wish to ensure specific international behaviour by all nations by demonstrating their clear disagreement with certain acts. Although Barber's secondary category might very well pose a goal for politicians, it is not relevant for this thesis, which does not look

into the domestically driven motivation for European politicians to embark on sanctions regimes, but rather evaluates the European sanctions' effects on the Russian Federation.

As such, Barber's first and third categories can be seen as the predecessors of what nowadays constitutes the standard goals for sanctions – coerce, constrain, and signal (CSS) (Dreyer et al. 2015, 18-19). Hence, sanctions are adopted to change the target state's behaviour, to constrain its ability to continue with the undesired actions by increasing its costs for doing so, and, lastly, to send a signal to the target as well as to the international community that the sender does not agree with the receiver's behaviour. Robert Pape (1997, 93-94) defines sanctions as measures that “*seek to lower the aggregate economic welfare of a target state by reducing international trade in order to coerce the target government to change its political behaviour*”, which can be done either directly by convincing the target that the price to pay for a certain political behaviour is not worth it, or indirectly by causing the suffering population to successfully demand an end to the policy or by overthrowing its leadership altogether. Pape further criticises that the mere implementation of sanctions (the signalling characteristic) cannot constitute a goal of sanctions, as the political behaviour has thereby not been altered. Similarly, simply increasing the costs for the target state (thereby constraining it) also does not qualify as success in his eyes – for the same reason.

Pape is correct in his conclusion that signalling alone cannot be deemed a goal of sanctions, as in that case, a failure of sanctions is impossible – every imposition of sanctions sends a certain signal. Nevertheless, signalling may very well exert influence on the behaviour of other states, deterring them from embarking on similar endeavours. Steve Chan (2009) argues that the possible threat of sanctions might have prevented a series of breaches of international law, as countries are afraid of becoming targeted by sanctions due to such breaches. Since those scenarios, however, can hardly be observed (as they did not happen), including them as successful examples of sanctions would be wrong from a positivist point of view. Still, the signalling character of sanctions should not be dismissed entirely. Concerning the constraining nature of sanctions, the case is easier. Even though successfully constraining the target nation means no direct change of policy, this certainly poses a valid goal of sanctions that can also be observed. When a country makes clear its intentions of committing certain acts against the will of sanctioning states (either directly or indirectly by carrying out corresponding actions), successfully constraining means putting a halt to further activities of that kind. Although an initial conflict might have already begun, preventing further escalation should be seen as equal

(and even preferable) to the goal of coercion, whereby at first undesirable behaviour takes place and economic pressure is then used to try to revert it afterwards.

Taking all those arguments into account, one can derive a definition with key characteristics that must be fulfilled in order to speak of sanctions. As such, any measure that is paralleled by military interventions of any kind cannot qualify as sanctions, since the main thought behind employing sanctions is to have an alternative to warfare – even though their ramifications in practice can be just as detrimental as military actions (Weiss 1999). Secondly, those measures must cause (or clearly intend to cause) a worsening of the economic situation of the target state or affect the economic liberty of targeted individuals, organisations, or businesses within that state. Hence, targeted or smart sanctions with minor repercussions, such as travel bans on designated persons, are also comprised in this definition, because they theoretically are capable of bringing about a behavioural change by restricting the scope of action of its targets. Thirdly, sanctions must be employed with the purpose to achieve certain political goals. Those goals can take the form of directly changing the target's behaviour (the coercing dimension) or of preventing it from taking further undesired actions (the constraining dimension). Kim Richard Nossal (1989, 302-306) argues that sanctions, entirely in keeping with its Latin origins *sanctio* (meaning penalty clause), can also constitute the anthropomorphised behaviour of states wishing to punish others for their wrongdoings. This argumentation would correspond to the signalling dimension, in that punishment signals a warning to the targeted state and the international community to not repeat a certain act. However, as argued above, employing sanctions simply as a means of sending signals is problematic for two reasons: when arguing that signalling disagreement counts as a success of sanctions, then every sanction ever employed is a success, as the mere imposition of sanctions suffices for that end. Secondly, even though the threat of sanctions might have deterred other states from commencing breaches of international law or other undesired acts, those cases due to their non-occurrence can hardly be observed. In consequence, signalling builds no characteristic of sanctions' definitions in this thesis, although recourse on this dimension will be taken occasionally when discussing the European Union's sanctions' goals.

2.3.2 Determinants for sanctions' effectiveness

Sanctions as a tool of foreign policy have been applied throughout the last century – with varying success. This (still young) history of employing restrictive measures against other states forms a crucial topic in academic literature, with different authors being of contrasting opinions

regarding when and why sanctions should be employed and what makes one sanction regime successful, whereas the other fails. This part will evaluate the academic debate surrounding sanctions' effectiveness to allow for a better understanding of the European sanction's consequences and the reasons for their inability to change Russia's stance towards Ukraine.

In said debate, Robert Pape (Baldwin and Pape 1998; Pape 1997) is one of the leading critics of sanctions' effectiveness. In his view, sanctions can only be deemed to be successful if they managed to change the target's behaviour according to the sender's intention. Hence, he regards the constraining and signalling goals of sanctions as failures, since the behaviour of the target has thereby not been changed. In his reassessment of sanctions' employment throughout 1914–1990, he consequently draws a very negative picture of a success rate in only 5 out of 115 cases where sanctions had been employed, whereby those successes were mostly over minor issues – as such, Canada was successfully pressured into not moving its embassy from Tel Aviv to Jerusalem, El Salvador did not release three prisoners that had murdered citizens of the USA, and the former Soviet Union agreed to release six prisoners of UK citizenship that were accused of spying. Pape further argues that in the other two incidents, one cannot be sure that the desired outcome was due to sanctions. In the case of South Korea not buying a nuclear fuel plant from France, the determinants of this outcome remained rather unclear, and in the case of Nepal giving in to Indian demands to be allowed a say in her defence matters, it was more internal democratisation processes that had led to this outcome rather than India closing her border with Nepal. This argumentation is supported by Morgan and Schwebach (1997), who conclude that sanctions most of the time fail in achieving their goals – only when the costs caused by sanctions very clearly outweigh the profits of carrying out certain political acts might those measures have a slight effect.

In contrast, David Baldwin (Baldwin and Pape 1998; Baldwin 1999) provides a more positive picture of sanctions' success, arguing that inflicting higher costs on the target (the constraining dimension) should also be considered a success and that one must differentiate between the questions of sanctions' effectiveness in changing the target's behaviour and of the feasibility of sanctions compared to other options, such as military actions. Hence, Baldwin advocates a logic of choice approach, whereby employing sanctions is one of the options policymakers have in dealing with other states. Thus, one should always consider the costs of different policy approaches – military means might therefore achieve more drastic results, but their costs outweigh the benefits, which might render a sanctions regime preferable. This viewpoint is shared by Tsebelis (1990), who explains the adoption of sanctions with game theory. Hence, he

is of the opinion that many leaders are aware that restrictive measures are unlikely to put sufficient pressure on the target to stop a certain behaviour, but other approaches would simply bear too great a cost for the imposing government. Still, Tsebelis is convinced that sanctions are a rather successful tool in achieving foreign policy goals. Similarly, other authors explain the usage of sanctions in that it equals a form of international punishment for the target (Nossal 1989) (resembling the “signalling” dimension) and that politicians by adopting sanctions have a comfortable way of portraying strong statesmanship, allowing them to gain approval by their voters for relatively little cost (Whang 2011). Arguments for sanctions can also be found in their deterring nature – when other states see that a certain behaviour will be punished, they are more unlikely to embark on a similar endeavour (Chan 2009; Miller 2014), which again equals the signalling nature of sanctions. Additionally, despite admitting that sanctions do rarely work in altering the target’s behaviour, Nikolay Marinov (2005) argues that they contribute to the destabilisation of the country’s leadership, thereby fostering policy change in the long run.

A variety of other authors focused more on the necessary conditions for sanctions’ success rates by looking at and inside the target state, the sending country as well as the international community and the sender’s and target’s position within that community. Hence, a consensus seems to be that the political situation within the target state plays a crucial role – an already politically weaker regime is more likely to give in to sanctions’ pressure than a strongly positioned government (Cf. Dashti-Gibson, Davis, and Radcliff 1997; Nooruddin 2002; Bolks and Al-Sowayel 2000; Martin 1993). Nooruddin (2002) also looks at the regime type of the targeted state, establishing that democratic governments are more likely to concede to sanctions’ pressure than other regime types. By evaluating US sanctions, the author also concludes that states that were in an alliance with the US are less likely to give into US demands, even though countries that were involved in a militarised interstate dispute with it are even less likely to concede. Authoritarian regimes, furthermore, are better equipped to resist sanctions’ pressure, as those regime types lack a strong opposition that can support the sending country’s demands internally. In addition, those regime types are able to redirect the economic consequences to specific parts of the population, thereby avoiding damage for their core supporter groups (Blanchard and Ripsman 1999). Bolks and Al-Sowayel (2000) research the determinants for how long sanctions are left in place. Like Nooruddin and Blanchard and Ripsman, they observe a stronger resistance against sanctions in regimes where the political authority is more centralised and concentrated, as they are able to transform the external threat posed by sanctions into strengthened social cohesion among the population. This results in sanction regimes being in place for a longer time, which, according to the authors, is a necessary precondition to achieve

the desired results. This statement is contradicted by Drezner (2003), who argues that whilst threats of sanctions are often useful in achieving political goals, their success rate sharply declines once implemented, as the target country has already been able to reckon with the impact on its economy and has nevertheless decided to prioritise its policies over economic welfare.

Regarding the quantity of sending states, arguments are that multilateral sanctions have a better chance of success than unilateral ones – but only if the imposition is carried out via an international organisation (Bapat and Morgan 2009), since otherwise a clear leader is missing, and many states, therefore, lack incentives of keeping sanctions regimes in place that also hurt their own economy (Drezner 2000). Martin (1993) hereby emphasises the importance of credibility and costs, meaning that the country wishing to set up an international sanctions regime must convince its possible allies of its commitment to the restrictive measures, for which to do so it must incur high costs itself via the implementation of sanctions. Blanchard and Ripsman (1999) also argue for the necessity of incurring high (political) costs and add that third parties are of vast importance, as they can contribute towards pressuring the target country into conceding, or, in contrast, can lend it support and pressure the sending country to suspend its restrictions (Peksen and Peterson 2016). They furthermore add that when granted the opportunity to yield to the sender's demands while incurring only small domestic political costs and thereby saving face, leaders are more likely to concede. McLean and Whang (2010), on the other side, emphasise that international cooperation plays a less crucial role than the fact of whether the sanctions were adopted by important trading partners of the target or not. Similarly, Miller (2014) found that a high dependency on a possible sanctioning state's economy renders threats of sanctions more successful, as the high economic dependence will deter the dependent country from embarking on endeavours that result in worsened economic relations. Bapat and Kwon (2015) warn that while a high share of the sanctioning country's firms in the target's market renders sanctions more successful due to the greater economic consequences, this also causes problems of enforcement, since those companies have high incentives to neglect the prohibitive measures in order to not lose their profitable market shares.

Overall, the political component is crucial in determining sanctions' success. Hence, when relations between the sender and receiver are characterised by frequent conflicts, the target will make fewer concessions when sanctioned than targets that normally enjoy better connections with the sanctioning country. Controversially, that means that targets against which the sanctioning country is hesitant to adopt restrictive measures due to the nature of their good

relationship, are more likely to concede (Drezner 1998; Whang 2010) – which contradicts Nooruddin's conclusion of allied states resisting their partners' sanctions more fiercely. Yet the most crucial element is the issue at stake: when the policy goal is of high interest to the receiving state, it is unlikely to subordinate its interests to the sender's demands (Ang and Peksen 2007; Dorussen and Mo 2001; Whang 2010).

2.3.3 Economic effects

To evaluate the economic effects of the EU's sanctions on Russia, I will firstly look at the developments in the trade of the sanctioned goods and then take recourse to a number of key economic indicators to give a more comprehensive outlook on the consequences on the Russian economy.

The first one is the *Gross Domestic Product (GDP)*, since this measurement allows for a lucid comparison between different years.

The second and strongly GDP-related index used to portray economic effects is the *inflation rate*. Drivers of inflation can take the form of supply shocks, whereby costs of production increase as it becomes more difficult or costly to acquire inputs, or demand shocks, whereby demand for products exceeds the production capacity of a country. Sanctions can play a role in both – they can inhibit producers' access to inputs as well as diminish the available amount of certain goods in the sanctioned country, causing a surplus in demand.

Thirdly, the *unemployment rate* will provide a complementary look into Russia's economic situation. High unemployment rates usually hint at downturns in an economy due to potential labour not being employed, which results in lower output levels (Economic Policy Institute n.d.). The unemployment rate additionally allows for general insights into the economic situation of individuals, as a high percentage of unemployed people means lower disposable incomes and purchasing power of households as well as possible demoralisation of citizens overall. Even though proving a direct connection between sanctions and the unemployment rate is unlikely, changes in the unemployment rate contribute to grasping the bigger picture of sanctions' possible effects.

The last two indicators, *trade flows* and *Foreign Direct Investments (FDIs)*, enable conclusions about the sanctioned country's economic relationship with other nations. Observing changes in foreign trade will be relevant in order to determine how trade relations between the EU and Russia have developed since the implementation of the sanctions. Here, special emphasis will

be put on changes in trade in sanctioned versus non-sanctioned products as well as on whether or not Russia has managed to compensate for the losses in trade with the EU by increasing trade with other countries. FDI occurs when foreign investors have faith in the economic potential of companies and/or financial institutions in a certain country and hence invest in that country's industry (ResearchFDI 2021). Decreasing foreign investments therefore hints at worsened economic expectations of potential investors, as sanctions render the country a greater economic risk due to the harsher conditions of conducting successful business there.

Although none of the indicators themselves can provide a clear picture of the sanctions' effects, taken together, those indexes will allow for qualified conclusions about any changes in Russia's economy caused by sanctions. The terms economic effects, consequences, and the like will be used interchangeably throughout this thesis and refer to the same concept.

2.3.4 Political effects

Defining the political effects of the European Union's sanctions is no easy task: unlike economic consequences, political repercussions cannot be broken down into a number of key indicators. Hence, when evaluating possible political effects, this thesis will look at developments in Russia's foreign policy as well as in her domestic politics and assess them qualitatively on the background of international relations theories.

Regarding Russia's stance on Ukraine, I will evaluate Russia's participation in the fulfilment of the Minsk Agreements and discuss relevant arguments as to why Russia has or has not adhered to certain provisions of the arrangement. Secondly, political effects in the sense of changed international relations will be assessed. Even though such changes cannot be measured in the same way as economic indicators, weighing concrete foreign policy measures and statements by relevant decision-makers will allow for an objective view of how Russia's strategy for international relations with the EU and other countries has adapted due to the sanctions.

Given that domestic turmoil in the form of protests and widespread disagreement with the government caused by the economic hardship that is brought about by sanctions may eventually result in a change in government and an abolition of the action over which the sanctions were employed (Blanchard and Ripsman 1999, 227-228), this thesis will look inside the state to find political consequences in the form of public disagreement with Russia's Ukraine policies. To do so, I will include surveys and assessments about the Russian citizens' contentment with their

leadership as well as discuss if there have been outbursts of public disagreement in the form of widespread protests. Of course, authoritarian states in particular do not tend to give into public demands – nevertheless, such movements might hint at higher prospects for political change in the long run.

Just as for the economic effects, the terms political effects, consequences and the like will be used interchangeably throughout this thesis and refer to the same concept as laid out here.

3. The development of the Ukrainian Crisis and Europe's response

At the time of Russia's invasion of Ukraine in February 2022, President Putin famously justified his actions by denying Ukraine's right to statehood, calling Ukraine a part of Russia's very own culture and history (Perrigo 2022). While this statement is certainly wrong when judged against international laws, Ukraine is indeed geographically and historically torn between her eastern "greater brother" Russia on the one side and Europe on the other side. Hence, Ukraine is considered by some to be split along the river Dnieper into a pro-Russian side and a pro-Europe side (Cf. Teichmann and Falker 2020, 110; Wang 2015, 1). A government-affiliated Russian opinion research institute in 2009 furthermore stated that 51% of Ukrainians use Russian as their everyday language compared to 41% using Ukrainian – in the same vein, 43% preferred their government to pursue closer political ties to Russia, whereas only 13% preferred a western orientation, and 38% a balance between Russia and the West (Фонд Общественное Мнение 2009). These results would indeed speak to a close interconnection between Russian and Ukrainian culture. The credibility of such surveys, however, is highly questionable – nevertheless, even in the case of counterfeited results, they depict the Russian view of Ukrainians sharing a strong bond with Russia that goes beyond the latter's relationship with other former USSR member states. Yet, Ukraine was a part of the EU's Eastern Partnership Programme, founded in 2009 with the goal to bring participating countries closer to the Union in terms of developing democratic values and their economic capabilities (Council of the European Union 2009), which speaks to the country's desire of orienting itself more towards the West.

This precarious situation was aggravated in 2013 when Ukraine had to decide whether she wanted to accede to the Russia-dominated Eurasian Customs Union, of which she had already been granted an observer status in the same year (Reuters 2013), or sign the already negotiated Association Agreement with the EU. This decision was of crucial importance for Ukraine's

future, as closer economic ties with either side would also bring about intensified political cooperation at the cost of closer bonds with the respective other side (Martin, Mayer and Thoenig 2012, 1). The Russian leadership already made its opposition to Ukraine concluding the Association Agreement with the EU very clear, warning that this step would lead to an “[...] inevitable financial catastrophe and possibly the collapse of the state” (Walker 2013).

Eventually, the acting Ukrainian President Viktor Yanukovich decided against the Agreement with the EU – being already perceived as pro-Russian, this choice resulted in protests against the president in Kyiv and the western parts of Ukraine. Those protests initially were of narrow scope and constituted the most recent in a series of protests against the government that were caused by general resentment against Yanukovich, which was added to by the frustration about the non-signing of the agreement (Kent and Samokhvalov 2016, 7-8). It was only after the brutal reaction of the police to those protests that masses of Ukrainians began demonstrating on the Maidan Nezalezhnosti (Independence Square), giving rise to a series of protests henceforth termed Euromaidan.

The Euromaidan movement in February 2014 eventually succeeded in overthrowing Yanukovich, making way for an interim administration that consequently signed the Association Agreement with the EU. With the inauguration of the newly elected President Petro Poroshenko, the European Union promised Ukraine vast economic support and access to its Single Market, fulfilling the demands of rapprochement to Europe that the Euromaidan protesters had fought for over the past months (BBC News 2014b; Croft 2014).

On the other side, pro-Russian separatists fiercely opposed the new political direction of Ukraine, leading counter-movements most prominently in the regions of Donetsk, Luhansk, and the peninsula Crimea, which found the support of the Russian side. After separatists had seized key buildings in Crimea in February 2014, a referendum was held on 16th March 2014, which resulted in Crimea becoming part of the Russian Federation (Crozet and Hinz 2020, 105). Since the referendum was organised without the participation of the Ukrainian government, it contradicted international law and so was not recognised by the majority of the international community, with 100 countries voting against the recognition of the referendum versus 11 voting in favour in the UN General Assembly (United Nations General Assembly 2014). This increased animosity in the already tense relationship between pro- and anti-Russian Ukrainians in the Eastern parts, eventually leading to armed conflict in the Donbas between Russia-backed separatists proclaiming the independent Donetsk People’s Republic on the one side and Ukrainian armed forces on the other (BBC News 2014a).

The Ukrainian Crisis attracted increased attention from the international community when a civilian Malaysian Airlines plane was shot down over the region of Donbas by a Russian anti-air missile (Crozet and Hinz 2020, 105-106; Korhonen, Simola and Solanko 2018, 5). Since then, however, the situation has been characterised as a stalemate, with both sides of the conflict engaging in occasional fighting that has not brought about any breakthroughs.

Only after almost 8 years, in February 2022, did the frozen conflict turn into a full-scale war of aggression. President Putin officially recognised the independence of the Luhansk and Donetsk People's Republic from Ukraine and sent Russian soldiers to Ukrainian territory – allegedly to prevent a genocide of Russian minorities in Ukraine as well as to demilitarise and de-Nazify Ukraine overall (Kirby 2022). As the war at the time of writing this thesis is still ongoing and new, unprecedented sanctions have been employed by the European Union and its allies of which the economic and political consequences still have to be seen, I will focus on the sanctions employed in the timeframe before the escalation of the conflict in 2022.

3.1 The EU sanctions

In light of the violation of Ukraine's territorial integrity, the European Union condemned Russia's actions and called upon her to withdraw her armed forces and desist from any further breaches of international law. To that end, the EU implemented a number of political and economic measures against Russia, which will be evaluated in this section.

3.1.1 Measures

Before the annexation of Crimea, the EU had already announced political consequences in the sense of suspending any talks about the abolishment of visa requirements as well as about the so-called New Agreement, which should have replaced the old Partnership and Cooperation Agreement with Russia and brought about closer cooperation in economic, trade, investment, and energy relations (European Investment Bank n.d.). In addition, preparations for the G8 Summit with Russia in Sochi in June 2014 were put on hold (Council of the European Union 2014a).

The first legal measures were adopted one day after the annexation of Crimea in the form of Council Decision 2014/145/CFSP (Council of the European Union 2014b) and Council Regulation (EU) No 269/2014 (Council of the European Union 2014c). Those initial sanctions did not target whole sectors of trade or the Russian economy all together, but took the form of

targeted sanctions against “[...] *natural persons responsible for actions which undermine or threaten the territorial integrity, sovereignty and independence of Ukraine, and of natural persons associated with them*” (Council of the European Union 2014b). Listed persons’ economic assets were thereby frozen and they were prohibited to enter or transit through EU member states. The initial list contained 21 persons who played a major role in the violations of Ukraine’s sovereignty, such as the “new Prime Minister of Crimea” Sergey Aksyonov and the “new mayor of Sevastopol” Aleksei Chaliy. According to Article 3 of Council Decision 2014/145/CFSP, the Council has the authority to amend the list of sanctioned persons, which it did on 21st March (Council of the European Union 2014d, 2014e) and 28th April (Council of the European Union 2014f, 2014g), adding 37 natural persons to the list. In addition, the European Union prohibited the import of any goods into the Union that originated from Crimea, unless said product was granted a certificate of origin by Ukrainian authorities. Those measures were supplemented by restrictions to imports of EU goods into Ukraine, investment restrictions in Crimea, and a prohibition of providing tourist services on the peninsula (Council of the European Union 2014h, 2014i).

After the downing of the Malaysian Airlines plane in July 2014, the European Union enacted a more comprehensive sanctions package via Council Decision 2014/512/CFSP and Council Regulation (EU) No 833/2014 (Council of the European Union 2014j, 2014k). With that, no bonds or similar financial instruments with a maturity greater than 90 days may be issued to the Russian financial institutions Sberbank, VTB Bank, Gazprombank, Vnesheconombank (VEB), and Rosselkhozbank. In addition, EU member states were prohibited to deal in military goods with Russia and could not sell or supply dual-use goods and technology to her or provide assistance in acquiring such goods. Furthermore, those sanctions forbade selling and supplying any technologies regarding arctic and deep-water oil exploration and production as well as shale oil projects in Russia. These sanctions were intensified in September, whereby after 12th September, bonds or similar financial instruments with a maturity of longer than 30 days were also affected by the sanctions, and a number of Russian entities were added to the sanctions list, among them energy corporations Rosneft, Transneft, and Gazprom Neft (Council of the European Union 2014l, 2014m). The European Investment Bank and the European Bank for Reconstruction and Development were requested not to undertake any signing of new financing operations in Russia (Council of the European Union 2015). In March 2015, the European Union clarified that any lifting of those sanctions would only happen upon the complete fulfilment of the Minsk Agreements and urged the Russian authorities to support the swift implementation of the Agreements (European Council 2015, 4).

At the end of 2021, a total of 185 individuals and 48 entities – operating mostly in the defence, financial or energy sector – were subjected to targeted sanctions, rendering them unable to enter EU territory, access their financial assets or to generate new funds in the EU.¹

3.1.2 The sanctions' goals

To be able to evaluate any success of the EU's sanctions, one must first understand what the Union wished to achieve by employing these measures against Russia.

As laid out in the definition of sanctions in this thesis, signalling disapproval of certain behaviour by imposing sanctions should not qualify as a goal. Nevertheless, some appear to regard the simple fact that the EU managed to impose its sanctions regime as one of the Union's core aims. As such, a NATO publication (Christie 2015) applauds the Western sanctions altogether, stating that the collective West thereby managed to signal credibility, responsibility, and, most importantly, unity and resolution, as it managed to take coordinated action despite the risk of bringing about economic disadvantages on itself. Regarding the EU, one should in fact not underestimate the peculiarity of all member states supporting the adoption and maintenance of the measures. Whilst the Union is often criticised for being too ineffective in rolling out new legislation or adapting to changed circumstances on the international stage due to its voting requirements,² the sanctions employed against Russia are reviewed twice a year and their renewal requires unanimity among all member states (Korhonen, Simola and Solanko 2018, 5).

Veebel and Markus (2015, 178) conclude that the aim of the European sanctions was probably not to constrain Russia, but it was rather aimed at a signal to her and to potential investors in Russia. In contrast, Ashford (2016, 116) interprets the sanctions in a way whereby the measures against President Putin's inner circle should have caused its members sufficient economic damage to force them to use their influence in persuading Putin to discontinue his aggressive policies against Ukraine. Veebel and Markus (2015, 183), despite interpreting the official Union goals to be of a signalling nature, even argue that the EU might pursue a hidden agenda, the goal of which is to cause a regime change in Russia, possibly resulting in a more pro-European

¹ For a detailed chronology of additions to and removals from the sanction list, refer to the Timeline of the EU's restrictive measures in response to the crisis in Ukraine:

<https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-ukraine-crisis/history-ukraine-crisis/>

² See, for instance, the discussion surrounding the EU's endeavours to strengthen the rule of law in its member states (Cf. Pitchers 2020) or the difficulties in handling the 2015 refugee crisis (Cf. Médecins Sans Frontières 2016)

leader that would retreat from Ukraine. But the authors are very uncertain about this outcome and question whether the economic pressure suffices in fostering a change in Russia's political elite.

Looking into the European Union's official statements regarding the employment of sanctions, its Basic Principles on the Use of Restrictive Measures (Sanctions) (Council of the European Union 2004) provide guidance on how sanctions are to be used and for what purpose. Hence, according to the first paragraph, sanctions are employed to "*maintain and restore international peace and security*", which clearly speaks for coercing and constraining efforts that should exceed the signalling dimension. However, paragraph 6 reads that those measures employed should be "[...] *targeted in a way that has maximum impact on those whose behaviour we want to influence. Targeting should reduce to the maximum extent possible any adverse humanitarian effects or unintended consequences for persons not targeted or neighbouring countries.*" Judging the sanctions adopted in the course of the Ukrainian Crisis, it becomes evident that this formed a core characteristic of the EU's goals. The Union's measures for the greatest part take the form of smart sanctions against designated individuals and entities, whereas the Russian economy overall is left unaffected – only the energy, defence, and financial industry are somewhat affected, although the incisive nature of the measures here is also moderate. Korhonen (2019b, 19) thus concludes that the narrow scope of the EU's sanctions hints at Europe's unwillingness to cause severe economic hardship and lower living standards for ordinary Russian citizens.

Nevertheless, the European Union with its sanctions regime clearly aimed for a change in Russia's stance towards Ukraine. As such, former European Council President Herman Van Rompuy upon expanding the scope of the Union's designated persons list on 29th April 2014 announced that "*our goal is to stop Russian action against Ukraine, to restore Ukraine's sovereignty*" (European Council 2018), adding that the sanctions employed are a means to an end and not a goal in itself. Similarly, the 2016 EU global security strategy listed the implementation of the Minsk Agreements as the first guiding principle for relations with Russia (European Parliament 2021). The Minsk Agreements were a continuous bone of contention in the course of the Ukrainian Crisis, with the parties to them interpreting them quite differently – an issue to which I will return in the analysis of the EU sanctions' political consequences.

In summary, judged against official statements, the EU's main goals were to put a halt to Russia's intervention in Ukraine and to restore Ukraine's territorial sovereignty by exercising pressure on the persons and entities responsible for the conflict. Simultaneously, the Union

aimed to curtail military supplies and financing options for the military operations in Ukraine by sanctioning industries that are either directly involved in military services or vastly contribute to the funding of the Russian Federation's actions in Ukraine. Furthermore, it thereby becomes evident that the European Union interprets the Minsk Agreements in the same vein as Ukraine, namely that a fulfilment of the agreements means a withdrawal of Russian forces from the region of Donbas and Crimea (Koshiw 2022).

4. Economic analysis

To understand the economic consequences of the European Union's sanctions on Russia, I will first introduce two economic models – a trading model for effects on trade in goods/services and the IS-LM model for the effects on the Russian financial market and consequently on the aggregate output level. Although those models are rather simple and do not allow for exact calculations, they are well suited to showcase the theoretical repercussions of sanctions on an economy and will build the background of the economic analysis. This section will proceed with a brief introduction of the two models, followed by their application to the given case of Russia. Next, secondary literature will be reviewed to find other possible causes than sanctions for the Russian economy's decline since the beginning of the Ukrainian Crisis as well as to find other effects of the sanctions on the Russian economy.

4.1 Effects of trade restrictions

To showcase the beneficial effects trade has on a given economy, I will take recourse to the trade model as introduced by Feenstra and Taylor (2012, 237-274), which demonstrates the consequences of tariffs and quotas on prices as well as on consumer and producer surpluses in the home economy. Although Feenstra and Taylor do not include trade restrictions in the form of sanctions, quotas have the same effects as sanctions in that they restrict the importable quantity of certain goods to a set amount, which allows me to discuss sanctions' effects based on their model.

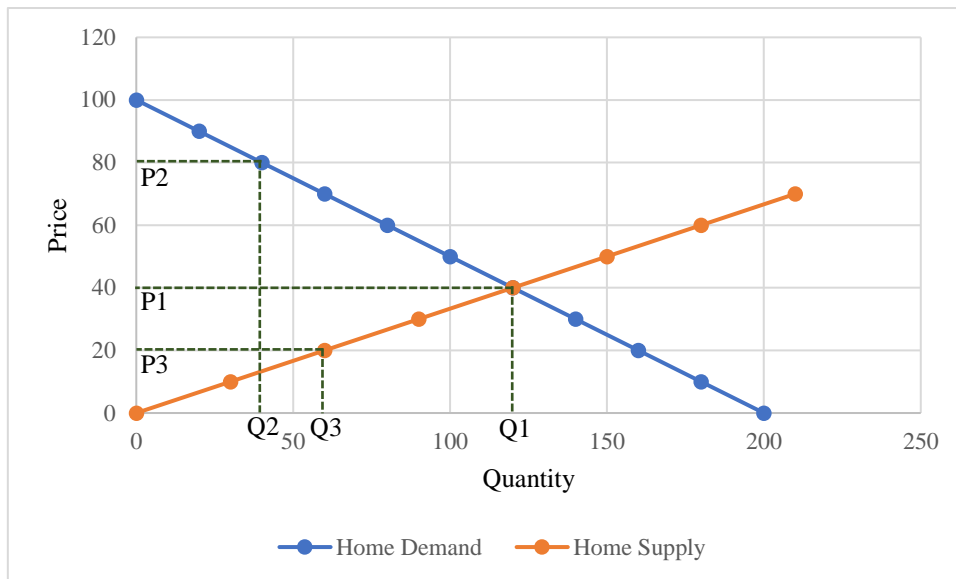


Figure 1: Supply and demand in a no-trade economy

In a given economy that does not trade with the rest of the world, the demand for a certain product X is given via the home demand and the home supply curve as portrayed in figure 1. In said economy, the equilibrium quantity for X is $Q1$. At this quantity, the buyer acquiring product X values its price exactly at $P1$. Before that point, consumers are willing to pay more for the product than its actual buying price. Hence, the consumer purchasing unit $Q2$ would be willing to pay the price $P2$. However, that person only has to pay price $P1$, meaning he or she obtained a consumer surplus of $P2 - P1$. In consequence, the total consumer surplus (CS) is the added-up sum of all individual purchases before quantity $Q1$ times the difference between the price consumers are willing to pay and price $P1$, which they have to pay, and equals the area below the Home Demand curve and price $P1$, as pictured in figure 2.

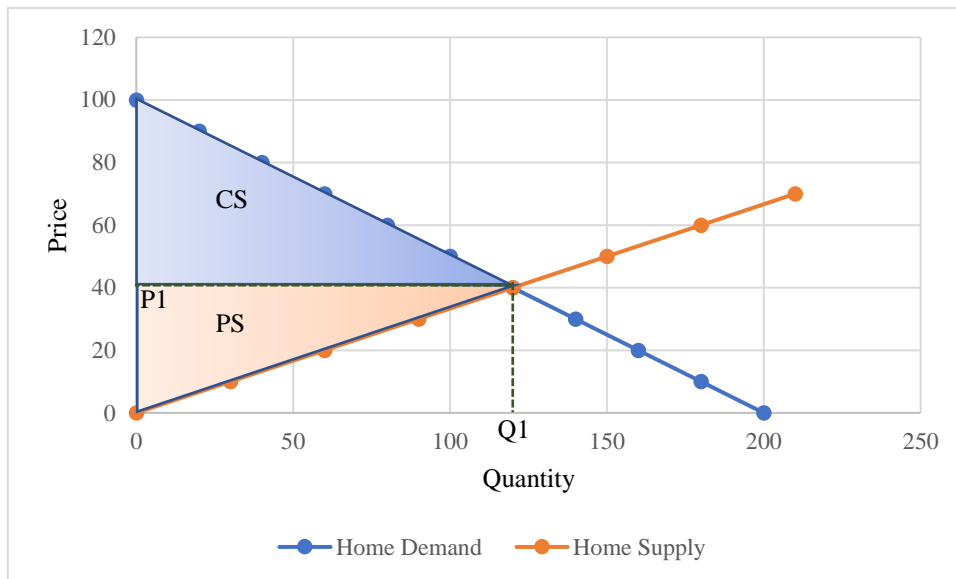


Figure 2: Consumer and producer surplus in a no-trade economy

Similarly, the Home Supply curve shows the marginal costs for firms at each level of production (in this example, firms do not face fixed costs, which is unrealistic but does not influence the graph's statement). Thus, at price $P1$ the marginal costs of producing one more unit of X equals the selling price $P1$, and firms are hence willing to sell $Q1$ pieces. For every amount before $Q1$, firms' marginal costs of production are below the selling price $P1$. In parallel to the consumer example, a firm would be willing to sell unit $Q3$ at price $P3$, but it can sell it for price $P1$ – allowing for a producer surplus of $P1 - P3$. The total producer surplus (PS) therefore equals the area above the Home Supply curve up until $P1$, as indicated in figure 2.

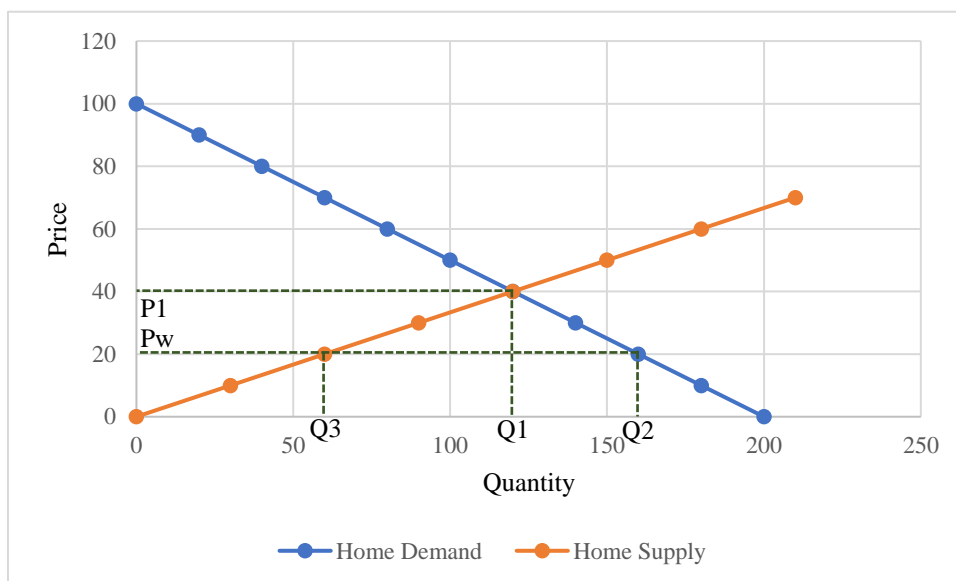


Figure 3: Effects of trade on demand, supply and price

This home economy will produce and consume $Q1$ units of good X without trade, since this is where the supply and demand curves intersect – consumers would be willing to buy more goods at a cheaper price than $P1$, but producers will only produce more at a price higher than $P1$.

If we now assume that the country is open for trade and is a net importer of good X , the picture looks somewhat different.

Assuming the home economy does not influence the world price with its demand, it faces the given world price Pw , which is lower than the home equilibrium price $P1$ – in case of the world price being above $P1$, the country would be a net exporter of X , since selling abroad would be more attractive for domestic firms. Setting the world price now at Pw , consumers would want to buy $Q2$ units of X . Domestic producers, on the other side, will only produce $Q3$ units at this price. As demand exceeds supply, the amount of $Q2 - Q3$ goods has to be imported (figure 3).

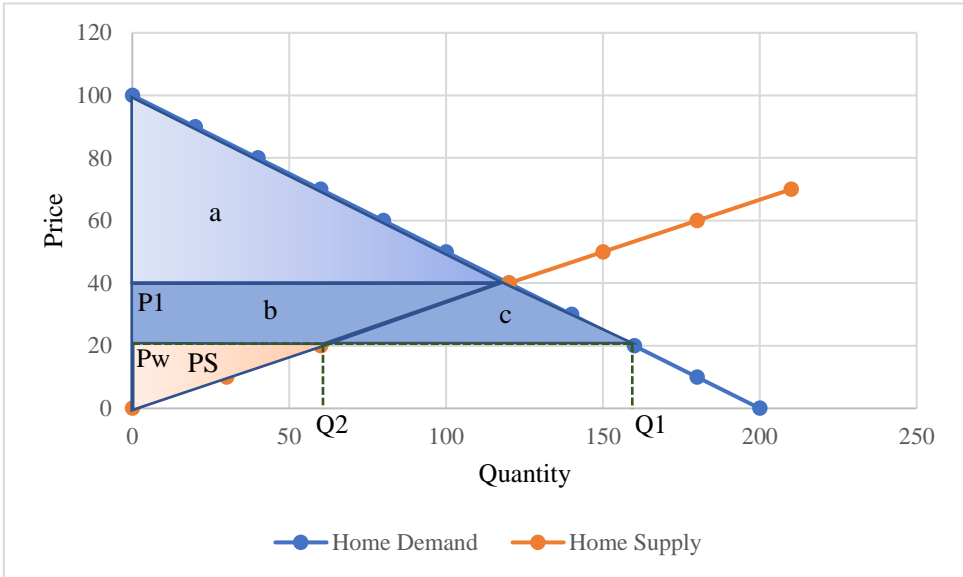


Figure 4: Effects of trade on welfare

This, in turn, also influences the consumer and producer surplus. Consumers can now buy more units ($Q1$) at the cheaper world price. Hence, they gain the additional area above the world price and below their demand curve, which covers areas b and c in figure 4. Home producers, on the other hand, are at a disadvantage in comparison to a scenario without trade. To compete with the cheaper world price, they must also sell at Pw , which leads to a decrease in home supply to the amount of $Q2$. Producers in consequence lose area b , which is now part of the consumer surplus. Adding up the changes in consumer and producer surplus, a net effect on home welfare in the form of the additional area c can be observed – the gains from trade.

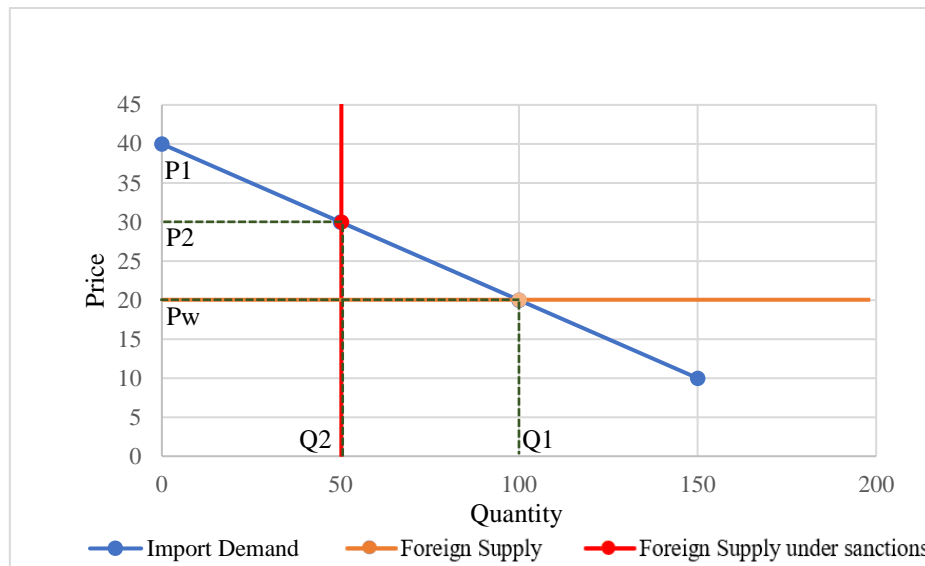


Figure 5: Import demand curve

To understand the effects of sanctions, one must first look at the import demand curve, as shown in figure 5. Thus, at a price of $P1$, imports will be 0, since the home economy's demand and supply are in equilibrium and no additional imports are desired at this price. At the world price of Pw , however, where foreign supply will sell any amount of X , home demand exceeds home supply, resulting in an import demand of $Q1$ in figure 5. If now sanctions are introduced in the form of a prohibition to export good X to the home market, imports cannot exceed the new vertical foreign supply curve, which equals $Q2$ units. The home economy will still be able to acquire some units from non-sanctioning countries, but the quantity available will certainly shrink – especially when the sanctioned good is produced mainly in countries imposing those trade restrictions. The price for imported units will now equal $P2$, as this is the price where the new foreign supply curve intersects with the import demand curve.

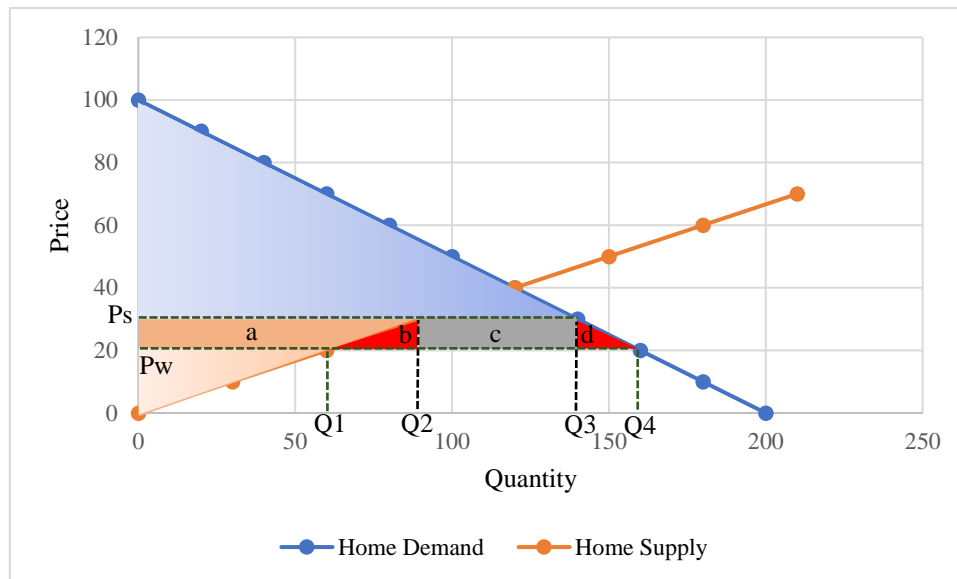


Figure 6: Welfare changes due to sanctions

Figure 6 finally depicts the changes in prices and home welfare due to the sanction. Thus, sanctions, by restricting imports, lead to a higher overall home price of P_s , which renders home producers to increase their supply from Q_1 to Q_2 , whereby consumers' demand decreases from Q_4 to Q_3 . The consumer surplus decreases by the difference in the world price and the new price with sanctions (P_s), which equals areas a , b , c and d in figure 6. Producers, on the other side, gain a surplus equalling the area left to the supply curve times the difference in the new price under sanctions and the world price, which is depicted by area a . Triangles b and d are the deadweight losses that occur due to the restriction in trade and are not substituted by any gains elsewhere in the economy. Square c would equal the gains in welfare for the country that took the place of the country previously exporting good X to the home economy, as this new country can now acquire X at the world price P_w and sell at the higher price P_s .

4.2 Applied to Russia: trade restrictions in oil exploration technologies

The European Union sanctions targeting Russia are of rather limited scope and do not target a wide range of products. Nevertheless, this simplified trade model can be used to showcase the effects sanctions have on trade with oil exploration technologies, as those are the goods and services most affected by the sanctions – next to military goods, which, however, are of rather insignificant importance from a purely economic perspective, as will be discussed later.

The Russian household is largely dependent on earnings generated by its vast energy resources of oil and gas. Teichmann and Falker (2020, 115) quantify the oil and gas-related revenue to

contribute approximately 50% to Russia’s national income. The European Union consequently found itself in a predicament: it is itself highly dependent on Russia’s energy deliveries and has therefore a disincentive to restrict direct trade in oil and gas on the one side (Bělin and Hanousek 2021, 256), whereas on the other side, such restrictions would hurt the Russian economy the most. The Union together with its western allies thus opted for a middle ground, whereby trade in technology and machinery necessary for certain oil extraction projects has been curbed.

Before the adoption of the sanctions in 2014, the EU was one of the main importers of oil and gas equipment, with Germany and Italy alone accounting for 27% of Russia’s market share in that sector. Even though the sanctions do not target ordinary exploration operations, they seriously affect Russia’s more unconventional energy ventures, especially offshore, Arctic, and shale oil projects, whereby Russia is up to 90% dependent on foreign technology (Shagina 2018, 3-6).

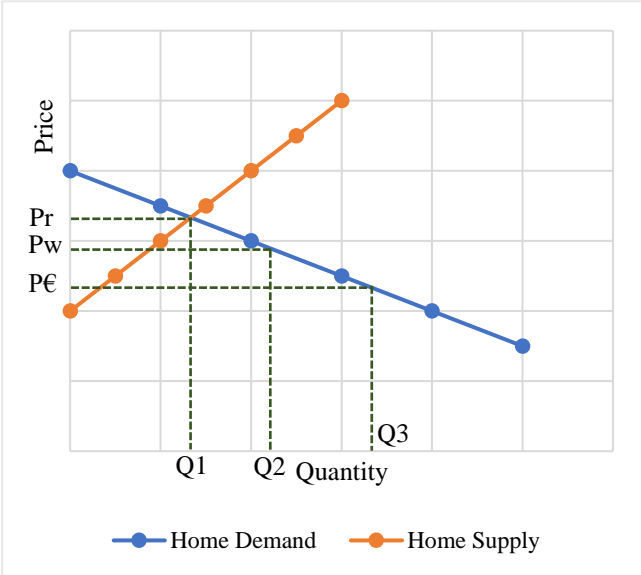


Figure 7: Sanctions' effects on Russia

Translating this information into the trade model, we can conclude that firms reliant on those imports suffer in the form of higher prices and a lower consumer surplus. The question arising, however, is how well those companies manage to substitute for European companies no longer delivering those technologies to them – the more difficult it is to find alternative foreign sources, the higher the loss of welfare and the higher the discrepancy between demand and supply will be, until prices are sufficiently high for new suppliers to deliver to the Russian market. $P_€$ in figure 7 hence represents the price Russian firms had to pay for deliveries from Europe, and P_w denotes the world price to be paid upon finding alternative sources (in practice, of course the price is not the only relevant factor, but also, for example, the quality of the products and

services – for simplification, the focus here is exclusively on the price). Should no alternative supplier be found (and acquiring oil exploration technology at price P_w thus falls away as an option), then prices will raise until the no-trade equilibrium is reached at price P_r , at which point Russian companies have enough of an incentive to begin covering the (diminished) domestic demand entirely themselves – given they have the necessary knowledge and technology to do so.

When comparing these theoretical results with reality, two things have to be noted first. The scope of the sanctions targeting oil exploration technologies is very narrow. The total value of the European Union's exports in those technologies amounted to EUR 350 million in 2013, which accounts for only 0.3% of the EU's overall exports to Russia in the year before the implementation of the sanctions. Furthermore, many exploitation and production technologies are left completely unaffected by the measures, meaning that only a fraction of those exports is targeted directly (Korhonen, Simola and Solanko 2018, 13). Secondly, Bělin and Hanousek (2021, 256) found only a marginal downwards trend in the trade of oil exploration technologies that is statistically insignificant. They observed that exports of those goods to Russia also decreased in countries which had not imposed corresponding sanctions. Thus, their conclusion draws a very negative picture of the sanctions' effectiveness, as the authors attribute the changes in trade to other factors. In addition, the authors rightfully state that the EU's sanctions are not applicable *ex ante*, meaning contracts that were concluded before the implementation of the restrictive measures can still be fulfilled (*ibid.*, 252), rendering the sanctions' scope even smaller.

On the other side, despite the at first discouraging outlook for the economic effectiveness of those sanctions, Russia's high dependence on foreign oil exploration technologies ensures that they cannot be completely disregarded. As such, Korhonen, Simola and Solanko (2018, 13-14) quantify the decline in those products hit by the sanctions to amount to 40% in the time between 2014 and 2016. They also argue that due to Russian companies' history of relying almost entirely on imports in this category, domestic substitution cannot be achieved in the short to medium term. Similarly, the researchers conclude that this export ban – among other reasons – resulted in the suspension of some new oil projects in Russia. This conclusion is supported by Shagina (2018, 4-8), who examines the combined effects of the western sanctions on the Russian oil market and finds negative consequences for most major Russian oil companies – as such, Rosneft cancelled nine projects, Lukoil put a hold on the creation of a joint venture for tight oil exploration, and Gazprom's cooperation efforts in tapping into new oil sources were

scaled back as a result of the sanctions. The author continues by looking into possible alternative suppliers of such technologies: Russia's traditional partner China can only provide equipment of inferior technology, which is often unsuited for Russia's extreme weather and territorial conditions in the Arctic regions while also being more costly than European alternatives. South Korea and Japan, on the other hand, are cautious about cooperating with Russia due to reputational risks and the danger of becoming the targets of secondary sanctions. For example, a planned joint venture between Japanese companies and Rosneft failed in 2017 due to threats from the United States.

To conclude, Europe's sanctions on oil exploration technology deliveries are characterised by mixed results. They hit a vulnerable part of the Russian economy but are of too narrow scope to inflict serious economic damage. Simultaneously, they leave open too many loopholes by allowing the fulfilment of contracts prior to the imposition of the sanctions. Nevertheless, as indicated in the trade model, alternatives to the European deliveries come at a higher cost for Russian firms – not to mention that alternatives are scarce overall, forcing Russian firms to either start investing in domestic production of these technologies or accept a stark decline in projects requiring them.

4.3 Effects of limited access to financial markets

Another rather simple macroeconomic model used to portray the sanctions' theoretical effects is the IS-LM model, which depicts the relationship between the equilibrium conditions in the goods and financial market of a country and allows for predictions about how changes in one market affect the aggregate output level and key interest rate of an economy. Since the European Union's sanctions restrict major Russian financial institutions' access to the European financial markets, the IS-LM model will be used to showcase these effects on Russia's output, the Gross Domestic Production (GDP).

The investment-saving (IS) curve in figure 8 represents the relation between aggregate output in an economy and the interest rate. The downward sloping nature of the IS curve means that the higher the interest rate, the smaller the economy's total output. When firms face high interest rates, they will be hesitant to invest in new machinery or other capital-intensive factors of production, because the returns on these new pieces of machinery decrease through the higher costs of acquiring them. At the same time, companies could simply lend that money, which

through the high interest rate would yield higher returns than in times of low interest rates. This consequently leads to lower production due to firms not investing in increasing production.

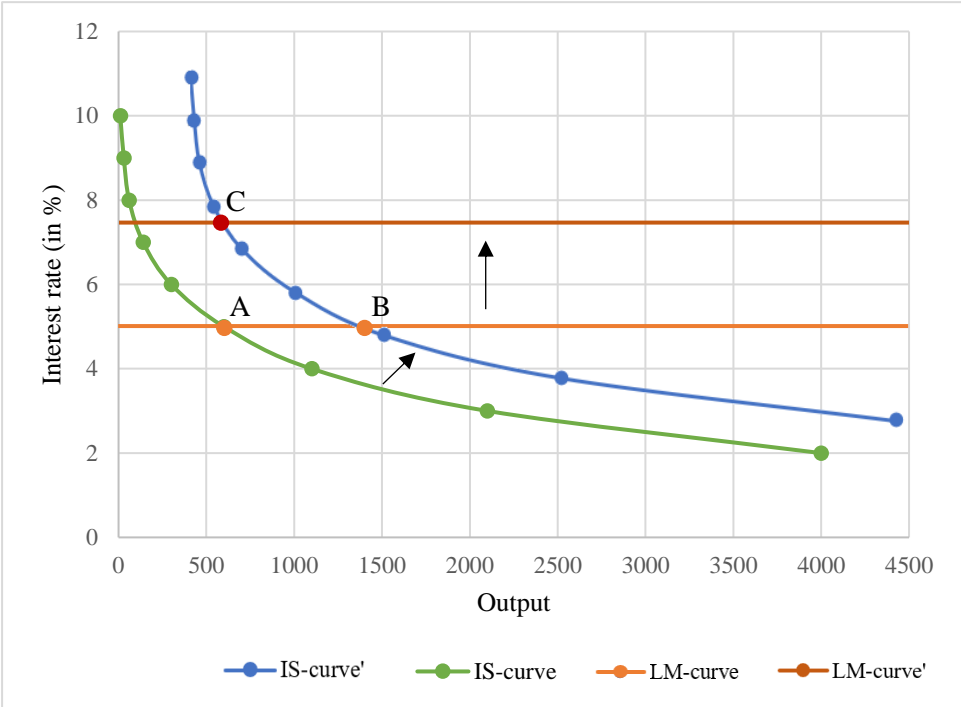


Figure 8: The IS-LM model

Keynes (1936) furthermore proved that the total level of companies’ investments must equal the savings of private households and the government (tax income minus government spending). Hence, on each point alongside the IS curve does investment equal savings and the IS condition is fulfilled. Departures from the curve will consequently lead to a new equilibrium point alongside the curve.

The second part of the model, the liquidity preference-money supply (LM) curve, indicates each point at which the demand for money equals its supply by the central bank. Following the Taylor Rule (Taylor 1993), money supply here is understood as the central bank aiming for a certain interest rate and setting the money supply accordingly instead of the other way around, rendering the LM-curve horizontal. This simplification assumes that the central bank has quasi omnipotent powers in determining the interest rate, which it in reality lacks, but it suffices to demonstrate the theoretical implications.

In figure 8, the original IS and LM curves intersect at point A – at an interest rate of 5% and an output level of 600. If now consumption (or another parameter) increases, then this will bring

about a shift of the IS-curve – its new position in figure 8 is indicated as IS-curve'. At an interest rate of 5%, the output will increase from 600 to 1500, as indicated by point *B*. Should the central bank now decide that it wishes to curb output to 600 again to counteract a possible overheating of the economy, it must raise the interest rate (and hence decrease the money supply) to approximately 7.5%. At that rate will the new LM-curve' intersect with the new IS-curve' at point *C*, whereby output again equals 600.

4.4 Applied to Russia: less investment and lower output levels

Applying the IS-LM model to the case of Russia allows for predictions regarding the EU's other most influential sanctions – the limited access to European financial markets for major Russian banks. After 12th September 2014, it was prohibited to provide bonds or similar financial instruments with a maturity over 30 days to those institutions. With Russian banks being able to issue and buy only short-term bonds on European markets, financing options for banks, and consequently businesses, in Russia have been severely restricted. This additional difficulty will be translated as means of a risk premium in the IS-LM model, whereby Russian banks and other financial institutions face additional costs in acquiring foreign funds. For example, a Russian bank wishing to buy a European bond with a maturity of three years to achieve a certain interest payment over that time can no longer do so on the European financial markets. It must instead find other, possibly more unfavourable and/or riskier options, or purchase short-term bonds with a maturity of 30 days, on which the interest payments are much lower. Both options are inferior to the no longer available possibility of long-term financial instruments and hence correspond to higher costs for Russian banks in accumulating capital. This, in turn, leads to banks charging higher interest rates on loans taken out by Russian companies to compensate for the loss in profitability. The next logical step would thus be for companies to decrease their investment, since purchasing new capital-intensive inputs for production became more expensive. In consequence, this step leads to lower production levels and decreased aggregate output.

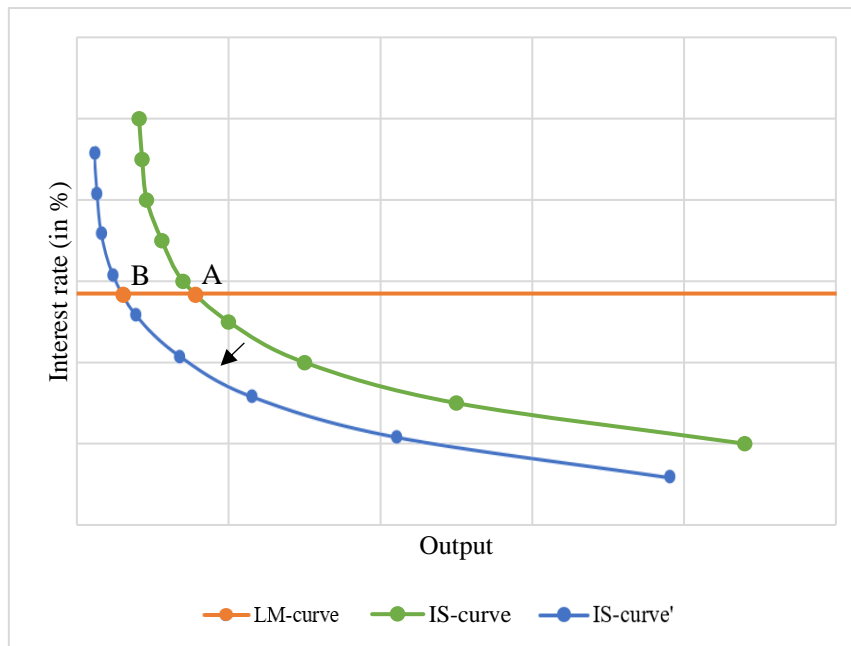


Figure 9: Effects of a limited access to financial markets

In the IS-LM model in figure 9, this chain of events means a shift of the IS curve to the left, since investments (I) (and thereby also savings) are decreasing, lowering the total output level of the Russian economy. In the case of the central bank not adjusting the money supply and hence the key interest rate, this results in a new intersection of the new IS-curve with the LM curve at a lower output level (at point *B*) than before. If the central bank now wishes to counteract this development, it would need to lower its key interest rate to make investments in production facilities more rewarding compared to lending money on the financial markets.

In reality, however, the Russian central bank decided at first to massively increase the key interest rate, from 8% in September 2014 to 17% in December of the same year (Trading Economics 2022b). It did so for two reasons: to counteract the falling value of the rouble (BBC News 2014c) and to put a halt to the spiking levels of inflation (BBC News 2015). I will go into more detail about these developments in the following chapters. Eventually, the threat of an imminent recession as predicted by the IS-LM model forced the central bank to gradually lower the key interest rate (ibid., 2015), which it did – interrupted only by a short intermezzo in 2019 – up until the beginning of 2021, when the key interest rate amounted to 4.25% (Trading Economics 2022b). Russia’s aggregate output nevertheless suffered a decline in those years, fully in line with the theoretical predictions derived from the IS-LM model.

Before assessing the impact on Russia’s GDP, I will first highlight the other possible economic reasons causing Russia’s economic downturn to come up with a more complete picture.

4.5 Alternative explanations for Russia's economic decline

The Russian Gross Domestic Product saw a steep decline in the first two years after the imposition of the sanctions and, despite an unneglectable recovery, never managed to come close to pre-sanctions levels (World Bank 2022b). While this at first sight appears to confirm the sanction's economic success, one would be mistaken to contribute this development solely to the sanctions. Previous research on this topic provides two other explanations for Russia's recession: the falling oil price and the declining exchange rate of the Russian currency, the rouble. This chapter will evaluate the development of these parameters to allow for a more comprehensive understanding of which factor contributed the most to the economic effects observed in Russia.

4.5.1 Oil price

The imposition of the sanctions happened during a time in which prices for crude oil were plummeting, thus the European measures' effects were also colliding with those of the falling oil prices (Ashford 106, 114). Whereas one barrel of oil cost 112 USD in June 2014, its price declined by almost 50% until the beginning of 2015 and continued its downwards trend until early 2016, when the price stood at 32 USD per barrel (Finanzen.at 2022).

In past academic papers on the impact of sanctions, an overarching conclusion clearly crystallised, attributing many negative effects on the Russian economy not to sanctions, but to the falling oil price (Cf. Korhonen 2019a, 2019b; Korhonen, Simola and Solanko 2018; Teichmann and Falker 2020). In times without crises, oil and gas together make up roughly two-thirds of Russia's merchandise exports and constitute half of Russia's federal tax income (Korhonen 2019b, 20) while also accounting for half of Russia's national income (Teichmann and Falker 2020, 115). Hence, even in times when Russia is not a target of sanctions do these effects result in lower trade and tax revenue and precipitate tightened financial conditions (Korhonen 2019a, 5). In consequence, the reduced trade in oil exploration technologies – the main commodity hit by the European sanctions – and the corresponding suspension of oil extracting and cooperation ventures by Russian companies could very well be strongly influenced by a fall in oil price, and not by sanctions alone, since the profitability of such projects is much lower in times of lower oil prices. Although disentangling the exact effects of sanctions and the oil price on the reduced trade in these technologies is hardly possible, it is highly probable that both played an integral role.

4.5.2 Exchange rate

The annual exchange rate of the Russian currency against the euro is characterised by high volatility. The rouble's value initially sharply declined after the last set of comprehensive sanctions in September 2014, depreciating by almost 50% from 46 to more than 80 roubles per euro. Since then, it alternately rose and fell in value, but its exchange rate since July 2020 (and before the escalation of the Ukrainian Crisis in February 2022) remained clearly above the 80 roubles/EUR mark (European Central Bank 2022).

The exchange rate of the rouble is important for a number of reasons. In the classic terms of trade, a weak domestic currency results in domestic products becoming cheaper for foreign buyers, whereby domestic exporters profit. On the other side, foreign goods rise in price relative to domestic goods, making imports more expensive. Veebel and Markus (2015, 186) list increased revenues for the Russian state as another advantage of a weak exchange rate. They fittingly state that a weak rouble not only boosts exports and thereby tax income derived from those exports, but that a weak domestic currency also encourages increased domestic production due to it becoming cheaper relative to imports, thereby further increasing tax income of the state. Mokin (2019, 10), in contrast, warns that institutions having to serve foreign debt require more money to pay those debts – which further exacerbates financial institutions' problems of being isolated from European financial markets.

The author is furthermore of the opinion that it is exactly that need for foreign currencies of Russia's banks and other financial institutions that contributed the most to the depreciation of the rouble. Kholodilin and Netšunajev (2018, 48) do not agree with this conclusion, arguing that the rouble lost its value mainly due to the sanctions shock, since sanctions inhibit trade with Russia and therefore limit the demand for the rouble on international financial markets. Dreger et al. (2016, 15) rather determine sanctions to have influenced the partly stark volatility of the rouble's exchange rate in times when sanctions and their effects were not anticipated by the trading partners. They attribute the overall depreciation of the rouble to the falling oil price – a verdict that is shared by Ashford (2016, 114-115), who is of the opinion that the exchange rate of the Russian currency tracks the oil price and is hardly influenced by any of the adopted sanctions. Bělín and Hanousek (2021, 251), who focus on analysing trade flows between the European Union and Russia, likewise fail to find any connection between European sanctions and movements in the exchange rate.

4.6 Economic indicators

In the previous sections, I discussed the effects of sanctions by means of looking into trade in oil exploration technologies, the commodity most affected by the European sanctions, followed by a debate on how the limited access to the European financial markets should affect Russia's total output and her key interest rate in theory. After the introduction of two additional variables that appear to have the potential to vastly influence Russia's economy, I will now continue by discussing the economic effects as laid out in the introduction of this thesis and their most plausible causes – the Gross Domestic Product, the inflation and unemployment rate, and Foreign Direct Investments as well as changes in trade flows. A common problem encountered when analysing secondary literature on these topics is the at times lacklustre differentiation between sanctions' origins. Hence, in some papers, it is not made sufficiently clear whether the effect observed stems from sanctions by the EU, or rather from measures adopted by all sanctioning states together. In addition, a couple of academic works in their analysis of economic effects do not allow for clarification on whether they researched nominal changes or movements that were adapted to changes in the inflation and exchange rate. The first issue is to be expected, since difficulties in estimating solely the effects of Europe's sanctions on the Russian economy are almost insurmountable, as the EU's sanctions to a large extent correspond to other sending countries' strategies and their effects thus cumulate. Although this does not allow for conclusions of only the European sanctions' effects in most cases, the EU was one of the driving forces behind the western sanctions regime, and any consequence can thus at least partly be attributed to the Union. To address the second issue, this thesis also includes the main movements in the exchange rate (as laid down in the previous chapter) as well as the inflation rate to allow for better estimates of real effects – additionally, whenever researchers in secondary literature have clearly indicated whether their results mean nominal or real changes, this will be stated as well.

4.6.1 Gross Domestic Product (GDP)

The Russian GDP (stated in current USD) reached its all-time high in 2013, amounting to almost 2.3 trillion USD. Since then, it plummeted, bottoming out at 1.28 trillion USD in 2016. Afterwards, it steadily recovered again and was equal to 1.48 trillion USD in 2020 (k 2022b).

Here, however, the effects of inflation and the volatile exchange rate are very visible: measured in constant 2015 USD, the GDP amounted to 1.39 billion USD in 2013 and slightly receded in

2014. Afterwards it increased again, leading to a GDP-peak in 2019 of 1.46 billion USD (World Bank 2022a).

As can be derived from this development, Russia's total output in current USD started to decline before any sanctions had been imposed on it, and even before this decline, growth rates had been negative since 2011. Hence, the economy was in a rather weak state already before the beginning of the Ukrainian Crisis and the subsequent sanctions (Korhonen 2019a, 5; 2019b, 20; Teichmann and Falker 2020, 117), which raises the question of the extent to which sanctions have played a role in the deterioration of Russia's economic situation. Veebel and Markus (2015, 180) look at the early development of Russia's GDP after the imposition of the sanctions and compare it with changes in the average economies of the Eurozone. They conclude that while growth levels were very similar between the second and fourth quarters of 2014 at 0.6%, divergences became visible in 2015, when the Russian GDP declined by 2.2% in the first quarter and by 4.6% in the second quarter. The Eurozone countries, in contrast, managed to sustain an average 0.4% growth in their economies. Nevertheless, the authors warn against misinterpreting those figures, given that the GDP of Ukraine, the victim state of Russia's behaviour, contracted by 17.2% in the second quarter of 2015, which would strongly oppose any narrative of successfully punishing and restraining Russia in view of the much worse situation in Ukraine.

What is more, the recession of the Russian economy cannot be entirely attributed to sanctions. As stated earlier, the price for a barrel of oil plummeted during the same time as the Russian GDP declined. When comparing the two charts of developments in Russia's GDP and the oil price, one is immediately struck by the very similar movements, which strongly hint at a correlation between the two. But correlation does not necessarily mean causation – hence, a number of academic papers have researched to what extent the oil price was responsible for Russia's recession. Korhonen (2019a, 5; 2019b, 20) is convinced that the falling oil price hit the Russian economy much harder than any sanctions, given that earnings on oil are an important contributor to the Russian budget and a steep fall corresponds to lower income for the state. The IMF (2015) in an early study about the sanctions' effects predicted the Russian economy to decline by 3.4% in 2015 while forecasting slight growth for 2016. In its calculations, the fund estimated all restrictive measures on economic relations with Russia to have reduced its GDP by between 1% and 1.5%, adding that prolonged sanctions could lead to lower output levels in the long run, theoretically affecting up to 9% of the GDP. Also in 2015, Citibank (Tchakarov 2015) attributed Russia's economic decline since the implementation of the

sanctions mainly to the lower oil price. The bank calculated that a decline in the price of 10 USD per barrel of oil results in 0.8% lower growth in the Russian economy. Hence, the approximate 50 USD fall in the oil price would lead to a 4% contraction. And given that in the bank's calculations the Russian GDP saw a fall of 4.4% between the second quarter of 2014 and the last quarter of 2015, this means that sanctions can explain at best 0.4% of the receding economy, or approximately 9% in total. Mahmutovich and Georgievich (2017, 82), despite not providing concrete numbers, also conclude that the falling oil price substantially contributed to Russia's worsened economic situation, stating that sanctions alone could not have brought about such a decline. Gurvich and Prilepskiy (2015) similarly examine the interplay between different oil price developments on Russia's economy and come to the conclusion that sanctions will cause losses of 2.4% of the GDP in 2017 compared to its pre-crisis level. The falling oil price, on the other hand, was estimated to bring about an 8.5% loss in the same time frame, which serves as another example of the oil price exerting the greatest influence on the Russian economy. They nevertheless confirm the theoretical predictions derived from the IS-LM model earlier that the limited access to international financial markets aggravated the financing options for Russian banks, which they state to be particularly severe in the military and energy sector and to lead to lower total output. Pestova and Mamonov (2019, 38) support this conclusion in their publication, where they undertake the difficult task to disentangle western sanctions' effects from the drop in the oil price. Their results underline Russia's difficulty in accessing international financial markets, which was at least partly responsible for her receding economy. Russia's GDP contracted by 1.2% between 2014 and 2015 according to the authors' calculations – even though they were unable to specify the exact contribution of sanctions' to this development, they find a modest, but nevertheless significant effect of sanctions.

Evaluating the effects of sanctions without regarding changes in the oil price, Barseghyan (2019, 19-20) calculated changes in the real per-capita GDP, which was characterised by an average loss of 1337 USD per year. Similar to previous authors, she derives the same conclusion that western sanctions exerted their main effect by restricting Russia's access to international capital markets. Kholodilin and Netšunajev (2018, 47-48) speak out against the sanctions' effectiveness, as they find no strong evidence for western measures having any effects on Russia's real GDP growth.

Wang (2015, 3) believes that sanctions will have detrimental effects in the long run. As such, the author warns that Russia's isolation from international financial markets will hinder the development of her own financial system as well as inhibit progress in technological and

scientific spheres, which might very well impact Russia's economy even more in the long run. Korhonen, Simola and Solanko (2018, 4) find only a very limited impact of sanctions on Russia's overall output level and claim that merely companies and individuals on the sanctions list have been affected. On the other hand, Korhonen (2019a, 9) concludes that sanctions have worked as intended, given that they forced the Russian economy to pay a price for the government's actions in Ukraine.

4.6.2 Inflation and unemployment rate

Due to the narrow scope of the sanctions, it is unlikely that either the inflation or the unemployment rate would have been substantially affected by foreign influences. Nevertheless, both are well-suited indicators to portray the overall health of an economy and can thus give hints about the development of Russia's economy since the implementation of the sanctions.

Starting with the rate of inflation, this economic indicator saw a tremendous upwards trend since 2014, rising from just above 6% to almost 17% in 2015. Since then, it steadily declined, with the average prices for consumers rising by only 2% in 2018. Despite a slight increase after 2018, it still amounted to 2% in 2020 (Trading Economics 2022a).

Those early spikes in the inflation rate following the adoption of sanctions were caused mainly by Russia herself. In response to the European sanctions, Russia imposed her own set of trade restrictions, banning a vast amount of European agricultural imports (Korhonen, Simola and Solanko 2018, 5-8), which consequently led to vast increases in food prices. The economic repercussions of the Russian countersanctions would exceed the scope of this thesis – nevertheless, it has to be noted that as a consequence of the Russian measures, food prices rose by an average of 18% in early 2015 (Cheptea and Gagné 2018, 24; Mahmutovich and Georgievich 2017, 88). Important exporting goods from Europe to Russia, such as cheese and apples, sharply rose in price, by 26.5% and 20% between 2013 and 2016 respectively (Volchkova, Kuznetsova and Turdyeva 2018, 4). However, not only prices for food increased but durable goods also became more expensive. With average wages in Russia rising by only 4.7% in 2015, the purchasing power of most Russians vastly declined, leading to a subsequent lower demand for non-basic consumer goods (Mahmutovich and Georgievich 2017, 88). In consequence, against the background of those initially very high inflation levels, the reduction of Russia's GDP seems even worse. Together with a crashing rouble, the savings of many Russians have lost value, in particular those consisting of loans in foreign currencies (Ashford 2016, 116-117).

The unemployment rate, despite being quite volatile, appears to act rather independently from any sanctions. As such, the rate of unemployed people even decreased after the imposition of sanctions in 2014 to below 5% – despite increasing again in 2015, a general, albeit irregular downwards trend can be observed that continued until the beginning of the Covid-19 crisis, which had negative consequences on employment levels globally (Trading Economics 2022c). Mahmutovich and Georgievich (2017, 83) observe a sharp increase in bankruptcies in 2014 of 18.2% compared to 2013, which they at least partly attribute to sanctions, and which could consequently lead to less employment. Similarly, Ahn and Ludema (2019, 33) find that Russian companies targeted by sanctions perform significantly worse than non-targeted firms, losing over 30% of their employees after being added to the sanctions list. However, the overall development of the unemployment rate suggests that sanctions had at best a minor impact on employment in the Russian economy.

4.6.3 Trade flows

Economic sanctions should per definition bring about worsened economic relations between sending and receiving states. To evaluate these changes, I will look into trade flows between Russia and the EU as well as other trading partners on the one side and capital flows to and from Russia and her companies on the other side.

Oil exploration technologies

Regarding the commodity most affected by the European Union's sanctions (arctic, deep water and shale oil exploration technologies), traded quantities of this good are rather small and accounted for only 350 million euros in 2013 (Korhonen, Simola and Solanko 2018, 13). As previously stated, this means that any trade restrictions here can have only a marginal impact, despite Russia's undeniable dependence on imports of those goods and services. What is more, given that contracts for trade in extraction technologies concluded before the adoption of the sanctions are not necessarily affected by the restrictions, the total impact is even smaller, leaving Russian importers time to try to find alternatives to European sellers (Bělin and Hanousek 2021, 246-247). In contrast, the EU did not place trade embargoes on any commonly traded goods that would make up a larger share of EU-Russian trade (Crozet and Hinz 2020, 106) and where restrictions would hence bring about more dire consequences for Russia. If the EU wanted to cause real damage to the Russian economy, the most obvious choice would be to severely restrict Russian deliveries of fossil fuels to Europe. The European Union serves as an

income generator of vital importance for Russian energy exporters, who deliver a large share of their oil and gas to the Union (Teichmann and Falker 2020, 122). However, restricting trade in energy deliveries due to the large quantity of imports and the consequent dependence on Russian exports would lead to a rise in prices of those goods at least in the short term (as could be observed in 2022, where prices for oil and gas spiked only due to the threat of losing Russia as an exporter). This damage to the EU member states' economies is inconsistent with the Union's "Basic Principles on the Use of Restrictive Measures (Sanctions)" (Council of the European Union 2004), which foresees that any sanctions shall have as little impact as possible on the EU itself.

Russia herself also does not turn a blind eye to the issue of her dependence on income generated by European energy purchases: hence, the Russian leadership concluded a gas deal with China in 2014, whereby gas volumes amounting to 400 billion USD shall be delivered to China for the next 30 years. Furthermore, Russia managed to find loopholes in the EU's sanctions regime for oil exploration technologies. For example, Rosneft managed to obtain 30% of North Atlantic drilling projects conducted by the Norwegian company Statoil (now known as Equinor), thereby securing sanctioned Arctic exploration expertise and technologies (Ashford 2016, 117).

Military goods

The other commodities directly sanctioned are military and dual-use goods. Halting deliveries of military equipment serves less of an economic purpose but shall rather make it more difficult to continue aggressive behaviour by withholding the tools for conducting military operations. Since official data on trade in arms and similar goods are accessible to the public only in a very limited form, estimates on sanctions' effects are hard to derive. Mahmutovich and Georgievich (2017, 14) find that in 2013 only 12 EU countries published data for the value of their arms exports, which accumulated to roughly 90 million euros. Hence, the economic impact of sanctions in this category can be expected to be of very limited scope.

Changes in total trade between Russia and the EU

Looking at the development of total trade between Russia and the EU, it becomes apparent that not only sanctions, but above all the lower oil price and weak rouble played a vital role. Still, sanctions also had an indirect effect in that they caused uncertainty for European exporters who faced increased political and legal uncertainty in Russia. In consequence, companies had an

incentive to halt their trade with Russia and to try to find new alternative importers to avoid the risk of acting illegally. This was especially true for financial intermediaries processing payments between trading partners. Even though the European Commission published a guidance note about its sanctions and how financial transactions were affected by them, confusion and uncertainty brought about a rollback in the provision of these services and hence a reduction of sales to Russia and also in goods unaffected by the sanctions (Crozet and Hinz 2020, 121-125). In addition, the high inflation rate together with the depreciating rouble led to a significantly lower purchasing power for Russians, which is reflected in the decreased total trade between Russia and Europe. Also, the Russian embargo on agricultural products stemming from Europe led to lower total trade volumes.

Bělin and Hanousek (2021, 251) calculate lost trade between the EU and the US on the one side and Russia on the other side to amount to 12.6 billion USD in the period of 2014 – 2017. In their calculations, the lion's share of this lost trade, 10.8 billion USD, is due to the Russian counterembargoes on agricultural products, whereas the loss of trade in oil extraction equipment (including non-sanctioned technologies) equalled 1.5 billion USD (here, the falling oil price certainly played a crucial role), which leaves 300 million USD attributable to other reasons. Crozet and Hinz (2020, 110-127) even estimate lost trade between December 2013 and 2015 to amount to 96 billion USD, with Russia bearing the largest part of lost trade with 53 billion USD. The authors further state that the EU has suffered 92% of total lost trade of all sanctioning countries overall, and 95% of lost trade in products that were not sanctioned with embargoes. Cheptea and Gaigné (2018, 37-38), despite looking mainly at trade developments due to Russian countersanctions, blame the majority of lost trade on the weaker Russian currency and the falling oil price, leading to lower trade volumes in all goods, both sanctioned and non-sanctioned. Similarly, the World Bank (2015, 39-40) identified lower trade levels between sanctioning countries and Russia in an early report, blaming mainly the weaker exchange rate of the rouble and Russian countersanctions for this development. A study commissioned by the European Parliament (Fritz, Christen, Sinabell and Hinz 2017, 39-40) concluded that the EU's exports to Russia shrank by 20.7% each year between 2013 and 2016. The authors, however, find that sanctions (including the Russian embargo on European food supplies) account for only approximately 11% of lost exports, and attribute the rest to the weaker exchange rate of the Russian currency and the consequent lower purchasing power of Russians.

In consequence, academic literature, despite at parts greatly varying results regarding the volume of lost trade, mainly blames the depreciating rouble, Russian countersanctions and the overall weaker economy of the Russian Federation for the downwards trend in trade.

Changes in trade between Russia and other countries

When comparing those results to trade developments between Russia and other countries, sanctions truly appear to play only a subordinate role. Korhonen, Simola and Solanko (2018, 11-12) see the EU losing market shares in Russia as part of a long-term trend that is hardly influenced by sanctions. Furthermore, the researchers argue that due to the sharply falling value of the rouble and a 12% decline in Russian household consumption, imports to Russia have declined from all countries, irrespective of whether they imposed sanctions or not. Their findings suggest that imports both from sanctioning as well as non-sanctioning countries have risen again after the recovery of the Russian economy in 2017. In addition, their study as well as Bělin and Hanousek's (2021, 256) reports declining EU exports also with regards to other countries heavily dependent on revenue of energy exports. This further supports the argument of oil prices exerting a much stronger influence on trade with Russia than sanctions. Crozet and Hinz (2020, 110-111), in contrast, state substantial differences in trade between sanctioning versus non-sanctioning countries. By testing predicted trade flows between Germany, Switzerland and Turkey, they conclude that trade flows between Russia and countries being part of the sanctions regime deteriorated, whereas those of non-sanctioning countries remained almost unchanged. What is more, the authors conclude that trade in sanctioned goods had been shifted to other countries, which increased their exports of embargoed goods by up to 82%. Thereby the lost trade with the EU could be largely offset. Ashford (2016, 117) supports this conclusion, seeing China as Russia's most important partner in circumventing the sanctions.

Hence, while many researchers see other causes than sanctions as the main reasons for decreasing trade flows between Europe and Russia, it becomes nevertheless evident that the latter tried to turn to alternative trading partners to substitute the lost trade with Europe and other countries having imposed sanctions against her.

4.6.4 Foreign Direct Investments (FDIs)

Looking at the developments of capital flows to and investments in Russia, the picture is quite similar to trade flows. It has already been hinted at that trade suffered partly due to the increased legal and political uncertainty in Russia, which especially affected financial intermediaries (Cf. Crozet and Hinz 2020, 101). This uncertainty also contributed to increased risk-aversity for (potential) investors in Russia. The World Bank (2015, 39) found Foreign Direct Investments (FDIs) in the first three quarters of 2014 to be 47% below the average of the same time frame between 2011 and 2013. In the third quarter of 2014, FDI inflows amounted to 1 billion USD, whereas one year before they equalled 12.1 billion USD. Total capital flows have even turned negative in the second half of 2014, indicating that investors were afraid of profitability losses due to the economic and political situation surrounding Russia and decided to withdraw some of their investments. Further reasons for the receding capital flows to Russia include the country's spiking inflation rate and the falling oil price (Veebel and Markus 2015, 182-186) as well as the isolation of Russian institutions from international financial markets (Mokin 2019, 10).

Korhonen (2019b, 21-22) calculated foreign debts of Russian banks to have amounted to 214 billion USD in March 2014, but to have subsequently decreased to 74 billion USD in September 2019. While Russia partly managed to substitute Europe with China and India in energy matters, financial institutions have not found alternative creditors. This is because international banks wanted to avoid the risk of being sanctioned themselves when engaging in deals with Russia. In consequence, Russian entities with foreign debts were hit hardest by the restrictive measures as they faced substantial obstacles when trying to find alternative creditors (Pestova and Mamonov 2019, 23). To these difficulties one must add the already much quoted falling oil price and the general uncertainty of global investors regarding the receding Russian economy and the repercussions of the Ukrainian Crisis on the Russian market. All of those factors augmented the unfavourable situation for investments in Russia. This development is also reflected in the plummeting levels of Russia's foreign debt, which indicated that international banks urgently wanted to limit their exposure to Russia (Korhonen, Simola and Solanko 2018, 19-21; Mahmutovich and Georgievich 2017, 84; Teichmann and Falker 2020, 117).

Similarly, Mahmutovich and Georgievich (2017, 82-84) recorded foreign exchange reserves to have depleted by 19.1% between August 2014 and January 2015. Their paper also shows that the overall worsened borrowing conditions for Russian banks wishing to take out loans on European markets led to higher interest rates on the loans given to them, which directly

translated to higher domestic interest rates for businesses borrowing from Russian banks. This observation corresponds to the theoretical results derived from the IS-LM model. In consequence, the authors state the total loan volume given out by Russian banks to be 11.1% lower in 2015 compared to 2014, whereby overdue loans increased by 53.8%.

Hence, it appears as if the sanctions did have an unneglectable effect on the financial market in Russia, even though they were not the sole reason for less investment there. Nevertheless, they aggravated the already complicated situation of falling oil prices and high inflation rates, further destroying investors' confidence in the Russian market.

5. Political analysis

This chapter will look into the political effects and reactions the sanctions have caused in Russia. To do so, I will begin by giving a brief overview of the most prominent theories of international relations and their key points to create the paradigm that can most suitably explain Russia's behaviour in Ukraine. On the background of this theory, I will evaluate sanctions' prospects for achieving change in Russia's foreign politics. Next, this thesis will look into concrete policy measures taken by the Russian political elite in response to the sanctions. Lastly, I will evaluate surveys conducted among the Russian population that reflect its attitude towards the Ukrainian Crisis and its stance on the sanctions to allow for conclusions about possible dissatisfaction with the situation brought on it by the government. Thereby, possible internal movements for political change shall be detected.

5.1 Three perspectives on world politics

5.1.1 Realism

The theory of realism developed from the shambles of the Second World War. Its intellectual father, Hans Morgenthau (Morgenthau and Thompson 2005), employed a rather pessimistic view of international relations. According to his opinion, states are not different from humans in that they are in constant pursuit of power (a term, which here refers only to military power and not economic or other forms of power). Hence, this anthropomorphising viewpoint on states prerequisites that all states must increase their power as well in order to ensure their safety against other states. Morgenthau thus argued that peace in such a power-hungry international

order can only be achieved if the power levels of states are equal, leading to a balance between nations where one cannot attack the other recklessly without suffering substantial losses themselves.

Over time, Morgenthau's theory developed into new strands of realism, which, however, all share certain unifying tenets. As such, realism neglects any other actors on the international stage apart from states. International organisations do not play an important role in this anarchic world view where a state can only trust itself and cooperation exists merely as long as it is in the interest of the state. Consequently, a nation's most important task is to ensure its own survival at all costs, with moral considerations being of subordinate importance as they only render a state weak. Hence, states will constantly strive to balance their rivals' military power to ensure their safety – two equally powerful nations cannot wage war against each other without risking their own demise. Realists, to a large degree, also neglect internal developments in states as well as non-material factors, such as domestic politics or different forms of government, and only focus on the external side of sovereign states and their interactions with each other. In the following, different strands of realism will be evaluated.

Neorealism, also referred to as structural realism, was developed by Kenneth Waltz (Waltz 1979) to render realism a more scientific theory that departed from Morgenthau's argument of human nature being responsible for states' behaviour. As such, Waltz perceived the international system to be the decisive aspect that forces states to pursue power. Since states exist in an anarchic system without a hierarchic order, they are compelled to constantly increase their (military) power, as this power is the only factor differentiating them. Thus, weaker states will want to enter into alliances with more powerful states to improve their own security. Waltz argued that in such a structure, a bipolar world with two "superpowers" would be more stable than a multipolar order because states can align themselves only with one of the two superpowers, leaving less potential for multifaceted conflicts and a great war.

Offensive realism follows the same assumption as neorealism in that the international system forces nations to pursue power. In contrast to Waltz, who argued that the anarchic nature of international relations is neither benign nor malign, its founder John Mearsheimer (2001) believed the anarchic structure of world politics to be bad, meaning that security is a scarce good and states must increase their spheres of influence in a constant struggle for survival. Since states cannot be sure about the intentions of other nations and therefore feel constantly under threat, they can never be satisfied with their relative position versus other states and will therefore try to become the dominating power to ensure their safety. Thus, states following this

paradigm will not have scrutiny to conquer other nations in order to improve their standing against others, which will inevitably lead to conflicts among states.

Defensive realists (Cf. Snyder 2002; Van Evera 1998; Walt 2002) employ quite a similar argumentation to offensive realists. However, according to their view, anarchy is rather benign, and security is not as scarce as offensive realists claim. Therefore, states will not pursue increased power if they do not face a threat. Yet, if one nation, for instance, embarks upon aggressive manoeuvres, others will try to balance against the aggressor by augmenting their own military capabilities to deter further aggression against themselves.

Lastly, neoclassical realism (Cf. Schweller 2006; Zakaria 1998) to some extent diverges from the purely materialist viewpoint of realists. This theory is rooted in the same system as brought forward by Waltz, where power capabilities are the determining factors in international relations. However, neoclassical realism introduces an intervening variable and argues that threats to states are not purely objective, but rather depend on their interpretation by states. Hence, excessive militarisation by a neighbouring authoritarian state will seem more dangerous to a democracy than if a neighbouring democratic country would do the same, rendering *regime type* the intervening variable. Based on how states perceive threats, they will either react aggressively or tolerate the other state's behaviour, which, depending on whether the reaction was correct, can lead to an upholding or a break of the balance of power.

5.1.2 Liberalism

Liberalism, being the traditional “counterpart” to realism, varies from the latter in a number of aspects. This theory emphasises the interconnectedness between states and the ties that they share to blend specific interests of states, since the interests of one state in an increasingly global world will also, to a large degree, overlap with the interests of another state. Thus, interconnectedness in international trade, advances in communication technologies, and globalisation in general render military power not as attractive and make power politics more undesirable – which is in stark opposition to realists' perception.

In contrast to realism's origins being attributed mainly to Hans Morgenthau, liberalism does not have a single founding father, but its ideas rather evolved from a number of philosophers, among them Immanuel Kant (1795) and John Locke (1823). Nevertheless, different liberal strands still share the same foundations. Whereas realists perceive that there can only be either peace or war and that these phases will always repeat themselves (depending on the balance of

power), liberalism argues in favour of the possibility of actually achieving progress and breaking free of this pattern. Furthermore, liberalism is strongly influenced by economic thinking: it places the individual at the centre and advocates individual freedom as well as moral considerations, such as the equality of human beings. Another economic resemblance is the pursuit of interests: despite its focus also on moral aspects, liberalism perceives the human being as self-interested, who will act accordingly to achieve their own interests. This, however, can lead to cooperation, as other individuals might share those interests, and joining forces thus might constitute a rational path to achieve those goals. This “shared-interest” way of thinking also makes for another unifying principle, which, furthermore, can be argued to build the core of liberal thinking. Nevertheless, liberals do not perceive the world to be positive per se as they also argue that it holds vast potential for conflicts. Yet, in contrast to realists, they argue that military conflict mostly entails too large costs for the benefits it brings, rendering international cooperation more favourable for states. In addition, liberalism surpasses realism’s confinement of power meaning only military capabilities, but also accepts economic and social aspects of power. In addition, even though liberals do not deny that different states share varying interests and pursue diverse objectives, they are of the opinion that a set of international rules and organisations can help to overcome conflicts and differences and to build trust and cooperation among states.

Liberalism, despite its capacity to explain other developments in international relations, is hardly suited for the present case of the Russian-Ukrainian crisis. Russia’s actions towards Ukraine’s sovereignty oppose cooperation and the pursuit of common interests. Also, more modern strands of liberalism, such as republican liberalism with the inherent democratic peace hypothesis (Cf. Owen 1994; Russett 1996) or neoliberal institutionalism (Keohane and Nye 1977), focus on an international order that is governed by a certain concept that goes beyond states, emphasising that democracies are unlikely to attack each other or that international organisations and agreements assume a certain hierarchical position that allows them to establish order. Russia’s breach of international law, however, contradicts those theories, and constitutes an example of a state overriding international laws and principles that were set in place to achieve increased cooperation between states. Here, Russia acted mainly out of security-motivated self-interest – an issue that I will return to after exploring the last of the three main international relations theories.

5.1.3 Constructivism

Lastly, constructivism is in stark opposition to liberalism and realism, in the sense that for constructivists, there is no objective truth in international relations, but the world, as the name suggests, is socially constructed. Alexander Wendt (1992; 1999), the most prominent propagator of this theory, perceived the dominating focus on materialism of realists and neoliberalists as a major flaw of those theories and argued that the world order and relations between states are not *given*, but rather manmade and therefore subject to change. Thus, this constructed world is not final, but can change, as it is a becoming rather than a being. This also means that the existence of this social construction depends on the actors who shape it: states are neither bad nor good, but their behaviour depends both on themselves and on how they perceive other nations.

An additional key point of constructivism is that the actors in international relations do not act objectively and independent from external influences, but are shaped by meaning – this meaning can be in the foreground (in which case actors more actively deliberate on it) or in the background (such as values and norms that are deeply embedded, and about which one does not think actively). This meaning in turn influences the behaviour and actions of the actors and ultimately is decisive in whether they are able and willing to change the system or not. For constructivists, it is not only the international system that influences states, as assumed by Waltz, but states and other players can in contrast also change the international structure.

Constructivism is a promising theory that can explain developments in international relations in more depth, as it is not in contradiction to either realism or liberalism. Through its perception of those theories being socially constructed as well, it allows for a broader perspective that also exceeds the materialistic focus of the other two theories. In consequence, constructivism plays an integral role in trying to understand *why* states act in certain ways, as it allows to explore the norms and values that build a state's identity, which are also guiding leaders' decisions.

5.2 Russia: a nation driven by power politics?

In this section, I will evaluate key moments in Russia's still very short history that help to evaluate if the state truly employs a purely power-driven view on world politics, or whether other factors also play a role that exceed realist thinking. Here, the focus will lay on the NATO air assault on the former Yugoslavia, the UN mission in Libya, and NATO's assurance of refraining from further expansion to Eastern Europe. On the basis of the derived conclusion, assessments can be made about the likelihood of sanctions being able to coerce Russia to alter its policy towards Ukraine or to constrain her aggressive behaviour.

President Putin in his 2005 *annual state of the nation address to parliament* famously referred to the collapse of the USSR as the greatest geopolitical catastrophe of the 20th century. In the same speech, he urged the need for Russia to become a free and democratic country – yet, on the other side, he claimed that Russia's position in the modern world would depend entirely on the country's success and strength (BBC News 2005). Those expressions, which seemingly contradict each other, very well define Russia's struggle after the collapse of the USSR to find her position on the world stage. The initial opening up to the western civilisation under Yeltsin is still connected with the outbreak of chaos and criminality in the 1990s in the minds of many Russians – Lynch (2001, 23-26) argues that the Russian leadership, marked by the events of the Bolshevik revolution in the early 20th century, has learnt that the international political system does not allow for transformative prerogatives of ideology, regardless of political belief. Thus, when Russia aimed to claim her place in a liberal world order following the disintegration of the Soviet Union, she was not allowed to do so, and her citizens suffered economic and social hardship. Consequently, Russia had to find another identity for herself, which she did in the role of a regional policeman. Russia's successful military interventions in Georgia and Transnistria, despite warnings of the West to stay out of other countries' affairs, did not prompt consequences on Russia. For the Russian leadership, this inaction meant that the liberals' announcements of Russia being punished for her behaviour by the West was but an empty threat, consolidating the state's position as a regional superpower. Nevertheless, the disappearance of the USSR as the antipole to the US strongly corresponds to neorealists' fears of causing an imbalance in power – Russia's actions clearly hint at her desire to re-emerge as a second global superpower, as will be shown throughout the following examples. In addition, one can derive that Russia at least initially tried to become part of a liberal world order that is guided by rules and laws – yet, a number of events undermined the government's beliefs in this world order and in Putin's view necessitated a Russia that can only trust in her own strength and military power.

One of the earliest origins of Russia's distrust in the West and its liberal order lies in the US' oral promise of the NATO not expanding further to the east than (former Eastern) Germany, made by US secretary of state James Baker to the leader of the USSR Mikhail Gorbachev in February 1990 – a corresponding document confirming this promise in writing, however, was missing. NATO secretary-general Manfred Wörner repeated said promise in the same year – yet the collapse of the Soviet Union and the dissolution of the Warsaw Pact brought about a change in security configurations in Europe, very much to the disliking of Russia (Sauvage 2022). When Hungary, Poland, and the Czech Republic consequently joined NATO, this reinforced the predominant feeling in Russia of being under constant threat. In his speech justifying the military operation in Ukraine in 2022, Putin made NATO a core topic, arguing that the alliance repeatedly broke its promises of refraining from an eastern expansion and thereby completely disregarded Russia's security concerns (Putin 2022). Again, this constant impression of being under threat and dividing the world into spheres of influence strongly speaks for Putin's neorealist worldview. The NATO expansion also serves Russia as a justification to intervene in Ukraine, following the old principle of *oculum pro oculo, dentem pro dente*: if the West does not play by the rules, then why should Russia?

However, a purely realist explanation has one major flaw. If Russia felt so threatened by NATO's expansion, why did she not react earlier by military means, especially when the Baltic states joined the organisation in 2004? From a neorealist's perspective, a neighbouring country joining "the enemy" is a security nightmare. Still, Russia, despite being very vocal about her disagreement with the three countries joining NATO (Peter 2014), did not act as harshly as she did in the Ukrainian case, even though the country was far from joining NATO in 2013/14. Neoclassical realism provides one answer by claiming that Russia perceived the Baltic states as less crucial than Ukraine (hence, the intervening variable might be *perceived strategic importance*), which would imply that Russia was not pushed far enough to resort to military action. Constructivism, on the other side, allows for a more comprehensive picture. Using this theory, one can conclude that Putin does not see a difference between Russians and Ukrainians and consequently argues that both nations are one, which was also made evident in his article "On the Historical Unity of Russians and Ukrainians" (Putin 2021). The norms and values influencing Putin's decision-making are thus clearly paramount, as he conceives Russia's historical and cultural ties with Ukrainians (and Belarussians) as inseparable – any deviation from Russia by Ukraine is thus perceived as a red line that must not be crossed, regardless of whether this deviation is real or merely subjective.

The NATO “Operation Allied Force” involving air strikes against the former Yugoslavia proved to be another turning point in Russia’s relationship with the West. Taking place only days after former members of the Warsaw Pact joined NATO, it showed Russian politicians that NATO does not rely on the authorisation of the United Nations Security Council (UNSC) to conduct military operations on territories outside of its members (Averre 2009, 575-576). For Russia, whose veto in the UNSC against an intervention (Independent International Commission on Kosovo 2000, 4) was in practice overridden by NATO’s operation, it was now clear that the NATO and the West only play by their own rules as long as it suits them (Averre 2009, 578-579). In consequence, this disillusionment led future Russian politics to perceive the world as anarchic, where only strength and influence can lead to a realisation of one’s interests (ibid., 591).

Similarly, although Russia abstained from making use of her veto power in the UNSC in the case of Libya, Putin criticised the West’s increasing number of military interventions in other countries for humanitarian reasons as cynical, due to the increased suffering among the population allegedly caused by those interventions. The Russian president even compared those operations to medieval crusades and saw himself vindicated in his decision to strengthen his country’s armed forces (Bryanski 2011). The overthrow of Libyan ruler Muammar Gaddafi following the United Nations Mission in Libya (UNMIL) confirmed Putin’s conviction that this intervention was but another war for a change in regime, and that Gaddafi had fared well as long as he did not open up to the West. This, in turn, greatly influenced Russia’s voting behaviour in the UNSC in the case of Syria, where the representatives of Russia vetoed a total of 16 resolutions regarding humanitarian aid or calls for ceasefires. Even more so, Russia’s own successful military intervention on the side of Syrian ruler Bashar al-Assad had put Russia back on the geopolitical stage, causing a diplomatic and military defeat to the West (Ghattas 2022).

To conclude, Russia, despite initially portraying gentle attempts of approaching and becoming part of a liberal world order, felt tricked and exploited by a West that, according to the Russian point of view, only adheres to international norms and laws as long as it suits its interest, and which will not shy away from inventing reasons to justify military interventions. Only when Russia started to portray military strength herself, such as in Georgia or Syria, did she achieve victories on the international stage, reinforcing Putin’s doctrine that strength and influence are the sole tools that matter. It seems as if the Russian president employs a number of realist aspects in his method of conducting politics – just as neorealism stipulates, he perceives the world to be an anarchic one where only power differentiates states. Following Mearsheimer’s

offensive realism, it also appears as if Putin feels constantly threatened by other nations, deeming increased power and influence the only solution to ensure Russia's survival. However, the fact that Russia drew the red line not in the case of the neighbouring Baltic states joining NATO, but only upon the theoretical possibility of Ukraine following suit, speaks against a purely realist thinking of Putin and necessitates a glimpse into the values and norms guiding the president. Nevertheless, realism serves as a fitting theory to explain how historical events have influenced Russia to employ such a behaviour – put together with constructivism, a comprehensive picture of Putin's motivations in Ukraine emerges. A western-oriented Ukraine is unacceptable for the Russian president, given that he perceives Ukrainians and Russians to be in essence the same people. Therefore, even the theoretical possibility of losing control over Ukraine is a catastrophe Putin is not willing to let happen, as he deems a Russia-friendly Ukraine vital for his country's security interests.

5.3 Sanctions as a lost cause?

Coercing and constraining a country by means of economic sanctions that prioritises its security interests over international cooperation is a difficult task, to say the least. As has been derived from an evaluation of academic literature, states that put a high priority on certain foreign policy goals will hardly ever succumb to sanctioning countries' demands, due to the fact that they value the benefits of achieving their goals much higher than any costs incurred by restrictive measures on their economy and people. This holds especially true for states acting according to the realist paradigm. Considering power and influence are the main factors influencing their behaviour towards other nations, sanctions can hardly ever be damaging enough to pose the same level of threat as perceived lost power – in the case of Russia, "giving up" Ukraine would be tantamount to loss of power in the immediate neighbourhood and, in the case of a NATO (or even just EU) accession, the creation of a new rival state. Even though Russia was already outraged over the Baltic states' NATO accession, the special bonds and history that Putin feels are shared between Russia and Ukraine renders control over the latter even more important.

A liberal Russia would, in many cases, prioritise stable international relations over power politics, since good relations are perceived to be more beneficial for the own country. Sanctions' chances for a favourable outcome in such a case would therefore be much higher. Past research on sanctions' success rates also has shown that when sanctions are employed on states between which the relationship is characterised by frequent conflicts, the sanctioned country is less likely to concede to the sender's demands – even more so when the receiver has an authoritarian

regime in place. Both conditions are fulfilled in the case of Russia. One could argue that relations between her and the EU were rather friendly before the annexation of Crimea and there have not been any military disputes since the end of the Second World War – still, their relationship has long been characterised by mutual mistrust, to which both sides have contributed, as has been shown in the previous section. And it is exactly this mistrust that induced Russia to only rely on herself and her strength.

Are sanctions against a realist Russia therefore predestined to fail? Certainly not. However, to pressure Russia into giving into its demands, the EU would need to design its measures in such a way as to pose a threat to Russia that exceeds the perceived security loss of a westernised Ukraine. In addition, giving the Russian leadership a way to concede to Europe's demands without losing face would further boost the likelihood of success, since Putin and his apparatus thereby do not have to give up the image of exerting strong, unyielding leadership that is necessary for their authoritarian maintenance of power.

5.4 Effects on Russia's politics

In the following section, changes in Russia's foreign and domestic politics caused by the EU's sanctions will be assessed. Since the European Union linked the abolishment of its sanctions to the full implementation of the Minsk Agreements, I will begin this analysis by evaluating any process in this regard and thereby indicate problems arising due to the European demand. Next, I will look into adapted priorities in Russia's foreign relations. This will be done by looking into announcements of the Russian leadership to engage in closer cooperation with other countries and/or to reduce efforts for a close relationship with the EU. Additionally, this thesis will examine whether concrete policy measures have been taken as a reaction to the sanctions. In a last step, the attitude among the Russian population towards the Ukrainian Crisis, the corresponding sanctions and its own leadership shall be reflected by means of surveys to uncover a possible impetus for political change from within the state.

5.4.1 The Minsk Agreements

Two international agreements, the "Protocol on the results of consultations of the Trilateral Contact Group with respect to the joint steps aimed at the implementation of the Peace Plan of the President of Ukraine, P. Poroshenko, and the initiatives of the President of Russia, V. Putin" (Tagliavini et al. 2014) and the "Package of measures for the Implementation of the Minsk

agreements” (Tagliavini et al. 2015), commonly referred to as Minsk I and Minsk II, were drafted to bring a ceasefire in the contested territories of Eastern Ukraine and, especially in the case of Minsk II, to chart a path for the future of the Donetsk and Lugansk regions. As established in this thesis’ chapter “The sanctions’ goals”, the European Union declared to lift its sanctions only upon the fulfilment of the Minsk Agreements. This, however, poses significant challenges, since Russia’s understanding of the fulfilment differs from the Ukrainian and European interpretation.

Minsk I was agreed upon during a time of intense fighting (Koshiw 2022) – a circumstance, which is reflected in the short provisions of the protocol that mainly deal with the establishment and monitoring of a ceasefire. Minsk II builds upon the provisions of its predecessor but elaborates in more detail the envisaged future for the regions of Donetsk and Lugansk. Both agreements in paragraph 10 share the goal of a complete withdrawal of all foreign military groups from Ukraine’s territory. Whereas Ukraine and the EU understand this paragraph as Russia having to withdraw her combatants and mercenaries, Russia denied being a party to the agreement herself, arguing that she has sent neither official combatants nor mercenaries of any kind to Ukraine (Veebel and Markus 2015, 183-184). In consequence, Russia cannot concede to European demands without acknowledging to have interfered in Ukraine, which would mean admitting to lying and a consequent loss of face both internationally and domestically – a highly unlikely step to be taken by the Russian leadership.

Furthermore, Minsk II in paragraph 9 entails a provision that attributes Ukraine the full restoration of her territorial integrity, including Donetsk and Lugansk. Simultaneously, however, those regions are to gain a special autonomous status that, depending on the interpretation, can even amount to quasi-sovereignty. According to the Ukrainian interpretation, Donetsk and Lugansk should gain some special powers via a constitutional reform, but still remain under the de facto and de iure authority of the Ukrainian government. The Russian interpretation, in contrast, among other aspects foresees the regions’ own police force and the right to elect judges and prosecutors (Koshiw 2022), which would not only amount to Ukraine de facto losing significant control over her eastern parts, but also allow Russia to exert significant control there. Over the course of the conflict, she has already laid the groundwork for putting Russia-friendly proxies in place by creating a propaganda-driven anti-Ukraine environment that portrays the Ukrainian leadership to be neofascist and to plot against Russian minorities (Sokol 2019).

Sanctions seem to not have played a role in influencing Russia's participation in the Minsk Agreements. In complete contrast to European demands, President Putin has even decided to officially recognise the sovereignty of the Lugansk and Donetsk People's Republics and to send Russian armed forces to the territories (Roth and Borger 2022), thereby effectively killing the agreements' already fragile chances for success. Hence, not only did the European sanctions not succeed in coercing Russia to give in to the EU's demands, but they also failed to constrain its target in further escalating the conflict.

5.4.2 Foreign relations: focus on China

The Ukrainian Crisis has reinforced a trend that has already been observable for some time: a rapprochement of Russia and China. Explanations for this development are manifold: some researchers point at the economic incentives and explain this trend as a logical consequence of China's economic uprising, from which Russian companies want to profit as well (C.f. Henderson 2015). Others see a striking parallel between China's and Russia's national identities, which renders closer cooperation only logical (C.f. Rozman 2014). Both theories certainly have their justification and help to explain Russia's increased focus on China.

The sanctions adopted by the European Union, however, played a role here as well. Despite their overall modest impact on Russia's economic downturn, they appear to have constituted the turning point in EU-Russian relations, rendering it necessary for Russia to turn her attention eastwards. Skalamera (2015) explains this turning point with constructivist arguments, claiming that although Europe continued to be Russia's most important export market, the Russian leadership was convinced that increased independence from Europe was necessary. Thus, the political and economic elite in Russia laid the foundation for a dominant public narrative along the lines of "*China is our saviour*" (ibid., 70), whereby more investment in and enhanced energy relations with China were portrayed as desirable to find a substitute to Europe. Although Skalamera largely follows the paradigm of constructivism, the author acknowledges that Russia's new foreign policy goals (in the sense of tightening her grasp on Ukraine) are the dominant factor that also influence her economic policies. It again becomes evident that Russia's behaviour can only be explained by a mixture of realism and constructivism – the prioritisation of foreign policy goals is a clear indicator of realist thinking, while the subjective element of perceiving China as a "white knight" stems from constructivism.

Europe's demand for Russian energy deliveries had already declined prior to 2014 (Skalamera 2015, 65), rendering the search for alternative trading partners necessary also from a purely

economic point of view. However, the increased tensions between Russia and the EU in the wake of the sanctions seem to have changed Russia's perspective on her historically most important export destination, since she now started to perceive Europe as a hostile partner, with whom economic relations are necessary, but who can hardly be trusted. Dmitry Kiselyov, a vastly influential propagandist in Russia's media landscape, who was consequently also put on the EU's sanctions list in 2014, summarised the perspective of Russia's political elite on Europe very well in 2015:

“The strength of Russia is that is not solely European [sic] ... Europe is our shared ‘soup’, which we cooked together, and we don’t deny it is a part of our identity, but these sanctions, a shameful move from their side, allow Russia to open up to the East” (quoted in Guter-Sandu and Kuznetsova 2020, 613).

As discussed in the economic analysis, the deal of 400 billion USD worth of Russian gas deliveries to China in 2014 constituted a major step in Russia's changed relations. Just as much as Europe is dependent on Russian energy, so is Russia on the revenues generated from these exports. Hence, shifting her attention towards China, a country with vast military and economic strength that is also governed by an autocratic regime, makes sense from an economic, political, and value-driven point of view. With the European Union's announcement to strive for independence from Russian fossil fuels by 2030 (European Commission 2022a), this should only boost Russia's efforts in cutting ties with her “shared soup” Europe. On the other hand, even though China is Russia's closest ally on the geopolitical stage, China's intentions are dubious, in that she largely complies with western sanctions on Russia and even subtly joined calls for a peace settlement with Ukraine (Blanchette 2022). Hence, shifting the focus to only forging closer connections with China would certainly be a mistake for Russia.

5.4.3 Reactionary policies: countersanctions

As a very early reaction to the European Union's sanctions, Russian President Vladimir Putin on 6th August 2014 issued the decree "On the application of certain special economic measures to ensure the security of the Russian Federation", which prohibited imports to the Russian Federation of certain agricultural products that were defined one day later by the Russian government in decision No. 778. The import restriction applied to all member states of the EU (European Commission 2022b).

Those import embargoes are commonly referred to as countersanctions, and hence I will also use this term in this thesis. Strictly speaking, however, this measure does not qualify as a sanction, since the government imposed it without the necessary linkage to certain political goals. The imposition of those policies appears to instead follow Russia's realist thinking: Europe's goal is to damage Russia, hence Russia has to harm Europe by targeting one of its most important export commodities. This conclusion is supported by Hedberg (2017, 46-48), who claims that Russia's realist reception of world politics renders it more attractive for the Russian leadership to negotiate with states instead of collectives (such as the European Union). The author therefore concludes that the Russian countermeasures were designed to damage the economies of those European countries that were constantly opposed to Russia's interests (mainly the Baltic states and other Eastern European countries), while the countries that were considered to be setting the tone in the EU (Germany, France, Italy, and the former member Great Britain) were largely spared. Korhonen, Simola and Solanko (2018, 14-16) add further proof to this theory with their findings that Lithuania, Poland, Latvia, and Estonia were among the countries hit hardest by Russia's embargo.

The Russian leadership, however, is unlikely to have adopted those import restrictions solely as a reaction to the European sanctions. Already on 30th January 2010 did former President Dmitriy Medvedev publish the Decree "On Approval of Food Security Doctrine of the Russian Federation", which set minimum percentages for domestic production of food supplies (Vassilieva and Smith 2010). Through the decree, it becomes obvious that Russia deems dependence on imports to be negative, especially in regard to such vital goods as agricultural products. Therefore, the imposition of the import bans can be seen as the latest step in the country's realistic tendency to trust only herself and not depend on other, hostile nations. Korhonen, Simola and Solanko (2018, 6) claim that the short time frame between the EU's sanctions and the countersanctions speak for Russia having had already prepared for this step. The European sanctions were merely the latest step in a series that brought about a geopolitical deterioration of Russia's situation – a *condicio sine qua non* for convincing the country's leadership of the need to shift the food supply to domestic producers. The depreciation of the Russian currency certainly also made increased domestic production more attractive compared to imports.

In consequence, the increased self-sufficiency of the Russian economy is sold to the public as something very positive. Guter-Sandu and Kuznetsova (2020, 611), who analysed extensive material from one of Russia's most influential news analysis TV-programme "Vesti Nedeli" on

the state-owned channel “Rossiya 1”, found that sanctions are portrayed to have helped the Russian economy get back on its feet, thereby increasing Russia’s might and independence. In addition, this image of Russia being able to produce everything domestically is not confined to agricultural products, but also to military production, whereby Guter-Sandu and Kuznetsova see striking resemblances to the propaganda of Soviet times. European sanctions, instead of forcing Russia to give up her objectives in Ukraine and to return to the international community, have quite to the contrary reinforced Russia’s conviction that the West cannot be trusted, and that in order to guarantee her survival, she must focus more on domestic production and increased independence from foreign imports.

5.4.4 The mood at home: largely indifferent

Sanctions, even when unsuccessful in changing a country leader’s determination to carry out undesirable foreign policy measures, can bring about economic and social hardship on ordinary citizens, and by that cause widespread dissatisfaction with the government and consequent protests, eventually leading to the overthrow of the leadership, at least in theory. As derived in the chapter about sanctions’ effectiveness, authoritarian regimes like Russia have a crucial advantage over democracies in that they can largely ignore the will of the people as long as they can rely on the military and other key supporter groups. However, the usage of force or other similar measures are not needed to keep the public at bay, since the majority of Russians continued to support their government and its actions in light of the sanctions.

The Levada Analytical Center (Levada-Center) conducts regular surveys among the Russian population to reflect its opinion on political affairs of domestic and international character. Its results have to be interpreted with caution – nevertheless, the institute due to its non-government-conform actions was placed on the register of “*NGOs performing the functions of foreign agents*” (Levada-Center n.d.) by the Russian Ministry of Justice, which hints at its independence from Russian politics. For this reason and the lack of other, more credible opinion research institutes, surveys of the Levada-Center will be used to reflect the public opinion of Russians on Ukraine, the corresponding sanctions, and its attitude towards the government.

In the wake of the EU’s most comprehensive sanctions package in September 2014, only 3% of Russians characterised the relations between the EU and their home country to be friendly or at least good. 3% perceived it as normal, and the vast majority of 91% saw it as rather or very negative. Similarly, 79% answered that they perceived the collective West to be Russia’s opponent, which strives to damage Russia’s interests – as is also the percentage of people

arguing that the West's criticism of Russia's Ukraine policies is but its aspirations to hold Russia down and decrease her influence in the world. In other aspects, the tendencies are less obvious: whereas 45% did not see that the Ukrainian Crisis will impact Russia's relations with the West in the long run, 40% expected increased long-term tensions similar to the Cold War. In addition, 66% were in support of repairing Russia's relations with western countries, and 36% were worried about Russia's increased isolation from the West – in contrast, 59% were not troubled by this development, and 24% even opposed the idea to improve relations with the West (Levada-Center 2014b).

Interestingly, 41% of survey takers were convinced that sanctions have been employed to impact the general Russian population, and 21% thought that sanctioning countries do not care about whom they affect with their measures. The opinion of only 30% corresponded with the official goal of the EU that sanctions are employed to damage only the people responsible for the Ukrainian Crisis. Very much in line with their government's argumentation, 59% of Russians were of the opinion that sanctions are actually beneficial for the Russian economy, with only 25% thinking they are harmful. Thus, the idea to seize accounts and assets of companies and countries benefitting from sanctions against Russia also found the support of a majority (60%), as did a boycott of goods manufactured not in Russia (58%). The Russian population also did not cede its support for the government's actions in Ukraine due to the sanctions: 68% are against conceding to sanctioning countries' demands of limiting support to the leaders of the self-proclaimed Donetsk and Lugansk People's Republics, and 79% opposed the idea of returning Crimea to Ukraine (Levada-Center 2014a).

In a similar survey in November 2018, the picture had not changed very much. 49% of Russians had a negative image of the European Union – against 36% who shared a positive attitude towards it. 56% of Russians were furthermore not concerned by any western sanctions against Russia, and 52% were not worried about Russia's isolated position on the international stage as a result of the country's intervention in Ukraine (Levada-Center 2018). These answers seem to be very logical when judged against the background of 68% of respondents blaming the US, NATO members or Ukraine for the aggravation of the situation in eastern Ukraine, whereas a mere 6% saw Russia or the Donetsk and Lugansk People's Republics as the initiators (Levada-Center 2021), rendering it evident that Russians, for the most part, follow the Kremlin's line of argumentation.

Also, people's support for Putin's actions as president was the highest in 2014 and 2015 in the direct aftermath of the Ukrainian Crisis, amounting to 88% – since then, approval ratings have

decreased, but remained at high levels between 60% and 70% (depending on the month) in 2020. When asked whether Russia was moving in the right direction, the situation was very similar: 2014 and 2015 saw the highest amount of people being satisfied with Russia's path, whereas those numbers have decreased to between 40% and 50% in 2020. Still, those unsatisfied with Russia's political course were in the minority, although a record 43% perceived Russia was going down the wrong path in October 2020. And whereas approval and disapproval ratings for the Russian government overall remained in balance, support for Putin's actions as president of Russia remained high throughout the years, amounting to up to 69% in 2020 (Levada-Center 2020).

The surveys' results strongly hint at a "rally 'round the flag effect", meaning that the Russian leadership successfully managed to create social cohesion by framing any negative development resulting from its actions as unjustified attacks from hostile nations. Guter-Sandu and Kuznetsova (2020) found that the media controlled by the Kremlin propagated certain messages of vast influence in shaping the public's opinion on sanctions. As such, the government appeals to Russians' national identity and promotes national pride, thereby mobilising and uniting the country. To do so, the predominating narrative almost entirely ignores Russia's engagement in Ukraine and instead claims that the sanctions came out of nowhere, amounting to unjust measures taken by the West in order to hurt Russia. In consequence, parallels are drawn between the current situation and the popular topics of victorious wars, foremost the Napoleonic and Second World War, where Russia also stood on the right side of history and emerged victorious. Secondly, the forced shift from imports to domestic production is presented as a great opportunity, giving Russia back control over vital industries, such as agricultural and military production. The last element of the propagandist narrative filtered out by Guter-Sandu and Kuznetsova is concerned with the portrayal of "the enemy". Europe is consequently presented as a continent of hypocrites, where freedom of speech is promoted, while in practice this freedom would be much lower than in Russia. Kiselyov, who, as already stated before, is hit directly by the European smart sanctions, thus complained that

"banning journalists from entering countries is the worst they could come up with, because it literally means limiting the freedom of press" (quoted in Guter-Sandu and Kuznetsova 2020, 612).

The aim here is to highlight European double standards and to portray the EU as a puppet of the US, which has become bogged down in futile liberal discussions and has been weakened as

a result. The resulting core message for the public is that life is better in Russia and that the sanctions have only contributed to a stronger, more independent country. When comparing those expressions to the survey's results, it appears as if the propaganda machinery has accomplished its job.

What is more, even if the majority of people should begin to deviate from the predominating pro-government opinion, demonstrations and/or an overthrow of the leadership are extremely unlikely. In authoritarian states, even economic hardship hardly suffices to turn people against their government due to the inherent risks – as witnessed in the unprecedented wave of protests in Russia in March 2022, where holding a blank piece of paper in the air sufficed to get arrested (The Economist 2022). This discouragement to take action against the government is further aggravated by rational choice thinking, as explained by David Stadelmann (2022). He argues that the risks of being engaged in the opposition are borne solely by those actively participating in actions against the state, whereas the fruits of a successful opposition can be enjoyed by all. Hence, even if the Russian civil society was striving for a change (which was certainly not the case at least until 2022), such change is unlikely to follow, unless a great majority of people proclaim their support for a different political path.

6. Conclusion

All in all, were the European sanctions successful? Judging by the current developments in Ukraine and the war of aggression Russia is carrying out on Ukrainian territory, one can hardly argue for successful political change in the interest of the European Union. From an economic point of view, however, the situation is less straightforward. Proponents and opponents of the sanctions' accomplishments can find plenty of support for their respective conclusions. To come up with an answer for this thesis' research question, *what are the political and economic effects of the EU sanctions over the Ukrainian Crisis on Russia*, I will return to the hypotheses proposed in the introduction of this thesis, starting with the second hypothesis:

H2: Russia managed to circumvent European sanctions by focusing more on domestic substitution and other trading partners.

European sanctions targeted mainly three areas: military goods, oil exploration technologies and the access to the EU's financial markets. Whereas for trade in military goods data was difficult to obtain, it seems unlikely that restrictions in this regard have had a significant economic (or political) impact. Judging against the low volume of arms trade between Russia

and the EU member states before 2014, sanctions are hardly plausible to have brought about significant cutbacks in trade – even more so when one considers that the possibility to fulfil contracts concluded before the sanctions’ imposition provided loopholes for arms traders. Limitations in trade in oil exploration technologies, on the other hand, certainly have had a larger impact, despite the rather narrow application of sanctions to arctic, deep water, and shale oil exploration. By using a simplified trade model, I have shown that Russian companies relying on those imports have to pay higher prices to acquire extraction goods and services or might even have to switch to domestic production entirely. Given that Russia prior to the sanctions predominantly relied on imports from abroad, a rapid switch to domestic production is almost impossible due to the capital- and knowledge-intensive nature of this industry. Furthermore, finding alternative importers is not an easy task since other countries have either joined the sanctions regime, can provide only technologies of inferior quality, or charge substantially higher prices than their European counterparts. Lastly, the restricted access to the financial markets certainly poses the greatest challenge to Russia: I used the IS-LM model to portray the limited access of Russian banks to international financial markets via a risk premium, which translates the increased difficulties to engage in those markets to higher costs. According to the theoretical predictions, investments and savings should thereby decrease, leading to lower total output levels of the Russian economy. Practically, this meant lower GDP growth and even a recession in the Russian economy, because banks, to make up for their increased costs, had to increase the interest rates of their loans to customers, rendering investments for companies more costly. In addition, the restricted access and the inherent obstacles in acquiring foreign currencies contributed to the depreciating rouble, leading to higher costs for Russian importers of foreign goods.

When evaluating any shifts of trade to other countries, academic literature hinted at various aspects. Firstly, a new deal with China for approximately 400 billion USD worth of gas deliveries showed that Russia realised the potential negative effects of her dependence on income generated by fossil fuel exports to Europe and her desire to diversify her export markets. Secondly, any changes in trading patterns between Russia and her trading partners cannot clearly and exclusively be linked to sanctions: while an unambiguous trend towards less trade between Russia and sanctioning countries could be observed, sanctions are not the only possible explanation for this trend. The depreciating oil price and weaker rouble certainly influenced trade at least as much as sanctions did. In addition, Russia managed to shift some of the lost trade to other trading partners, in particular China, and was thus able to cushion some of the negative effects. Nevertheless, the European measures certainly played a role in deteriorating

Russia's trade with other countries, although the exact extent can hardly be stated. Sanctions, however, definitely resulted in lower levels of foreign investment in Russia – the reduced financial interconnectedness between Russian and foreign financial institutions and the high level of uncertainty for foreign investors have made Russia less attractive as an investment destination.

In addition, a stronger focus on domestic production could be observed. Yet, domestic substitution took place mainly for agricultural and other food products, as imports of those were severely restricted via a set of countersanctions Russia had imposed against European Union members herself. With regards to the production of oil extraction and military products as well as financial products, domestic substitution of significant magnitude could not be observed.

Overall, hypothesis two is in part correct: Russia did focus more on other trading partners and domestic substitution, but goods directly sanctioned were hardly affected by this. In general, the scope of the European sanctions was rather narrow, rendering substantial damage to the Russian economy and the consequent need for alternative trading partners or domestic substitution low for the overall economy.

H3: The political elite of Russia follows a realist view of international relations and is hence unwilling to retreat from Ukraine, as it perceives a Russian-dominated neighbourhood as crucial for the state's survival.

By looking into past historical events of vast importance for Russian politicians' understanding of international relations, I have shown that assuming a realism-dominated perspective is highly plausible. Disillusioned by the actions of the liberal West, Russia decided that only strength and influence can guarantee her position on the international stage and, in turn, her own survival. Thus, dominating its neighbourhood and establishing strong spheres of influence was and is the most important objective for the Russian leadership, against which economic damage incurred due to sanctions and deteriorating international relationships is only secondary.

However, the Russian leadership is also strongly influenced by a constructivist view of the world – Putin perceives the Ukrainian people to be one with the Russians, and the separation of Ukraine from Russia after the collapse of the USSR to be one of the greatest tragedies in modern history. This also explains why Russia did not intervene when the Baltic countries, although being direct neighbours of Russia, joined the North Atlantic Treaty Organisation. For a purely realist Russia, this would have already been unacceptable, due to an enemy thereby being “born” at Russia's border. Neoclassical realism thus serves as a well-suited theory, as it

explains Russia's behaviour via an intervening variable, the perception of such actions in the Kremlin. This constructivist element takes the form of Russia perceiving Ukraine as much more important and historically closer to Russia than the Baltics, rendering the possibility of a NATO accession a risk Russia is absolutely unwilling to take. Only a Russia-friendly or Russia-dominated Ukraine can be accepted, and Russia is willing to incur high costs to ensure this important foreign policy goal is realised

In consequence, hypothesis 3 could be validated, rendering prospects for any sanctions' success very slim against this realist, authoritarian country. Only when the subjective costs caused by the sanctions surpass the subjective gains of enjoying vast influence in Ukraine may sanctions bring about the envisaged change. This, however, could not be achieved with the sanctions regime before 2022.

H1a: The sanctions implemented by the European Union had a significant economic impact on Russia's economy.

H1b: The sanctions implemented by the European Union had only insignificant effects on Russia's politics.

In summary, the first hypothesis could be verified, at least partially. Russia suffered significant economic damage as measured by developments in her GDP, inflation rate, and foreign direct investments. However, sanctions played only a subordinate role in that, with the falling oil price and the inherent depreciating rouble exerting a much greater influence on Russia's economy. Thus, direct causal links between economic damages and political reactions in Russia could hardly be observed. The target's most important reaction, the imposition of countersanctions on European agricultural products, was a decision that aligned more with Russia's general realist way of thinking, as she thereby aimed to ensure her self-sufficiency and independence from western countries. The imposition of sanctions, nevertheless, certainly contributed to this decision – however, evoking such a political reaction was not part of the European sanctions' goals. In terms of the actual goal, a de-escalation of the conflict in Ukraine, sanctions were unsuccessful, judged from both a containing and coercing point of view. It might be that the EU successfully signalled its disagreement by imposing sanctions – but signalling alone is insufficient, and as the world witnessed in February 2022, Russia did not care for the EU's demands, rendering even the signalling character of the sanctions unsuccessful.

With the new sets of sanctions imposed by the European Union as a consequence of the Russian attack on Ukraine in February 2022, the economic and political damage brought on Russia is

significantly greater. Measures such as a halt on Nord Stream 2, an exclusion of many Russian banks from the SWIFT network for international payments and an import ban on Russian coal and on approximately 90% of imports of crude oil and refined petroleum products³ were unthinkable before the escalation of the Ukrainian Crisis. Nevertheless, the new sanctions face the same challenge as their predecessors: they are imposed against an authoritarian leader, who is fanatically trying to increase Russia's spheres of influence, and who is unlikely to concede, even in light of those new, unprecedented measures. Still, with its latest oil and petroleum embargo, the EU is certain to cause severe damage to the Russian state budget, which is highly dependent on revenues generated by fossil fuel. To bring about real change, however, the EU would need to hurt its own population as much as the Russian citizens and enforce a full cessation of energy imports from Russia. This would lead to a massive spike of the costs Russia has to incur when continuing with her aggressive behaviour, rendering chances for peace significantly higher. But even when increasing Russia's costs by that much, coercing her to withdraw from Ukraine (or constraining her efforts to conduct further aggressive operations) cannot be guaranteed, as Putin already went too far to surrender without losing the two things most precious to him – face and power.

³ At the time of writing this thesis, the EU has adopted its 6th sanctions package. For an up-to-date list of sanctions, refer to: <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/history-restrictive-measures-against-russia-over-ukraine/>

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